

**Survey of the British Columbia  
Fish Processing Industry:  
Financial Results 1978-1982**

Clarkson Gordon\*

Economic Policy Branch  
Department of Fisheries and Oceans  
Ottawa, Ontario K1A 0E6

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\*700 West Georgia Street, Vancouver, B.C.

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Canadian Industry Report of  
Fisheries and Aquatic Sciences 146

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Survey of the British Columbia  
Fish Processing Industry:  
Financial Results 1978-1982

by  
Clarkson Gordon<sup>1</sup>

Department of Fisheries and Oceans  
Economic Policy Branch  
240 Sparks Street  
Ottawa, Ontario  
K1A 0E6

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<sup>1</sup>P.O. Box 10101, Pacific Centre, 700 West Georgia Street,  
Vancouver, B.C. V7Y 1C7

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**SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY  
FINANCIAL RESULTS, 1978-1982**

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## ABSTRACT

Clarkson Gordon. 1983. Survey of the British Columbia fish processing industry: financial results 1978-1982. Can. Ind. Rep. Fish. Aquat. Sci. 146: 133p.

The financial performance of the British Columbia fish processing industry for the years 1978 to 1982 was investigated through the compilation and analysis of historical financial and operating data. It was found that the processing industry has not earned a satisfactory return on their investment since 1978. It was concluded that in order for the industry to return to reasonable financial stability, the sampled processors require a minimum of \$135 - \$145 million in equity, an increase of \$20 - \$30 million over what they currently have. They would also have to earn about a \$20 million after-tax profit on this investment in order to obtain a satisfactory return on investment. Gross margins must rise from the 1982 level of 12% to about 18% in order for an adequate return on investment to be earned. A lower cost of production is necessary if long-term processor profitability is to be realized.

## RÉSUMÉ

Clarkson Gordon. 1983. Survey of the British Columbia fish processing industry: financial results 1978-1982. Can. Ind. Rep. Fish. Aquat. Sci. 146: 133p.

Une enquête sur le rendement financier de l'industrie de la transformation du poisson, en Colombie-Britannique, a été menée, de 1978 à 1982, en compilant et en analysant des données financières et opérationnelles historiques. Il a été découvert que l'industrie de la transformation n'avait pas atteint un taux de rentabilité satisfaisant depuis 1978. Afin que l'industrie puisse retrouver un équilibre financier raisonnable, on a conclu que les transformateurs échantillonnés avaient besoin d'une mise de fonds de 135 à 145 millions de dollars, soit une augmentation de 20 à 30 millions de dollars de plus que la somme dont ils disposent maintenant. L'industrie de la transformation devrait remporter au moins 20 millions de dollars après déduction d'impôt afin de jouir d'un taux de rentabilité adéquat. Les marges bénéficiaires brutes doivent augmenter de 12 %, ce qu'elles étaient en 1982, à 18 %, afin d'atteindre ce taux de rentabilité adéquat. Il est donc nécessaire de réduire les coûts de production afin que les transformateurs puissent réaliser des profits à long terme.



## FOREWORD

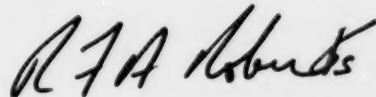
This survey was carried out by the Department of Fisheries and Oceans and is a key component of the larger study process being undertaken in connection with policy considerations relating to the Pacific coast fisheries. The Commission on Pacific Fisheries Policy recognized the need for major and fundamental changes to alleviate the problems besetting the British Columbia fishing industry. To design an appropriate policy for the future, it is necessary to have detailed and reliable information on the financial conditions of both the harvesting and processing sectors of the industry. Until now, such information has been lacking with regard to the processing sector.

This study was designed to fill this void through the collection, compilation and analysis of financial, operating and other relevant data for the years 1978-1982. We trust that it will provide the reader with an understanding of the present financial position of the processing sector. The consultants provided a substantive basis for debate on the future of the British Columbia fishing industry. Comments are welcome.

The information collected from the individual processing companies was obtained with the understanding that all individual company and/or plant data would be kept strictly confidential. This report, therefore, contains only aggregate data and data based on averages. No organization, company or Government department will have access to individual company information.

The study was prepared under contract by the accounting firm of Clarkson Gordon. A Steering Committee of industry and government representatives provided guidance to the consultants and their effort is greatly appreciated. I would like to thank all the industry officials who participated in the survey by submitting data and those who provided advice and interpretation of the data as members of the Project Advisory Committee.

The opinions and interpretations expressed in the report are those of the consultant, and do not necessarily reflect those of the industry or the Department of Fisheries and Oceans.



R.F.A. Roberts  
Director  
Economic Policy Branch  
Department of Fisheries and Oceans

November 28, 1983



SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY  
FINANCIAL RESULTS 1978 - 1982

1.0 REPORT HIGHLIGHTS

The material set out below provides a brief summary of the content of the report which follows. These highlights are intended to enable the reader to obtain a quick overview of the report prior to reading it in detail. In the interests of brevity, the highlights are presented in point form and exclude the supportive background data which may be found in the report. Page number references are provided in brackets at the end of each point showing where the more detailed discussion in the report may be found.

1.1 BACKGROUND

- The primary purpose of this report is to provide an understanding of the present financial position of the processing sector of the British Columbia fishing industry. It is also intended to provide background on the specific question of the financial capacity of the processing sector to participate in primary sector fleet restructuring.  
(Page 7)
- The report which follows is based on the financial results of 34 fish processing plants located in British Columbia.  
(Page 13).
- In 1978, the sampled companies included 95% of all assets and 98% of all sales in the B.C. processing sector; in 1980 the sample included 83% of industry assets and 82% of sales.



This decrease is mainly the result of new plants opening in 1979 and 1980, several of which no longer operate. (Page 29)

## 1.2 FINDINGS - PROFITABILITY

- The sampled processors have not earned a satisfactory return on their investment since 1978. In 1979, 1980 and 1982, the sample incurred an overall loss, although a small profit was earned in 1981. In total, over the period 1979 to 1982, losses incurred amounted to \$9 million. (Pages 35-46)
- Processor profitability has been affected by increases in the cost of raw fish as a percentage of final product selling prices. Processors' costs of production indicate that in excess of 70 percent of manufacturing cost is expended directly on the purchase of raw fish. Other costs of production are distributed as follows: 15 percent for labour, 5 percent for packaging and about 10% for all plant overheads, including energy and depreciation. As a result, processor profitability is very sensitive to the relationship between the cost of raw fish and the selling price of the finished product. (Pages 69 to 72)
- Because of growing competition in world markets, particularly from the Alaskan fishery with its lower landed cost of fish, B.C. processors have generally not been able to obtain a sufficient mark-up on cost to show a profit. In 1982, gross margins were below 15% for almost all processors compared to 1978 when gross margins of above 15% were achieved by about two-thirds of processors. (Pages 37 and 38)
- The unsatisfactory profit performance of the processors in the last four years is also due to several significant negative events starting in 1979, including the following:

- o a major decline in the herring roe market,
  - o the botulism scare of 1981/82 brought on by Alaskan product which adversely affected all markets for canned salmon.
  - o increases in Canadian interest rates in the early 1980's, and
  - o increases in the value of the Canadian dollar relative to European and Japanese currencies, the major export markets for the B.C. industry. (Pages 20 to 22 and 85)
- 1983 is expected to be a year in which the processing sector is marking time while decisions on basic industry policy are made. (Pages 62 to 64)

### 1.3 FINDINGS - CAPITALIZATION AND FINANCING

- Growth in assets has been moderate in recent years for the sampled processors. The industry's asset base grew by 26% over the survey period. More than half of this increase appears due to inflation rather than increases in real assets. (Pages 41, 42 and 83)
- The total assets held by the sampled processors at the beginning and end of the study period were:

| (\$ millions)       | Balance as of the<br>end of |              | Increase between 1978<br>and 1982 |
|---------------------|-----------------------------|--------------|-----------------------------------|
|                     | <u>1978</u>                 | <u>1982</u>  |                                   |
| Inventories         | \$128                       | \$151        | \$23                              |
| Accounts Receivable | 47                          | 58           | 11                                |
| Fixed Assets        | 62                          | 89           | 27                                |
| Other               | <u>18</u>                   | <u>23</u>    | <u>5</u>                          |
| Total Assets        | <u>\$255</u>                | <u>\$321</u> | <u>\$66</u>                       |

(Exhibit 5 and Appendix One)

- 4 -

- Inventories, which are a major component of assets, rose in 1981 and 1982, as a greater than normal percentage of canned salmon production was carried forward to the following fiscal year. (Pages 41 and 72 to 75)
- The above assets were financed as follows:

| (\$ millions)                                | Balance as of the<br>end of |              | Source (allocation)<br>of funds |
|----------------------------------------------|-----------------------------|--------------|---------------------------------|
|                                              | 1978                        | 1982         |                                 |
| Short-term loans                             | \$ 36                       | \$ 98        | \$62                            |
| Long-term loans from<br>conventional sources | 17                          | 48           | 31                              |
| Private loans                                | 32                          | 31           | (1)                             |
| Other                                        | 70                          | 60           | (10)                            |
| Equity                                       | <u>100</u>                  | <u>84</u>    | <u>(16)</u>                     |
| Totals                                       | <u>\$255</u>                | <u>\$321</u> | <u>\$66</u>                     |

(Exhibit 5 and Appendix One)

- For the sampled companies, equity including private loans amounted to about 35 percent of assets in 1982 compared to 50 percent in 1978. This is a relatively low equity position for any industry, and is below the Canadian industrial average. (Pages 44, 45 and 88)
- Despite the processors' moderate rate of investment in new capital assets, bank debt increased from \$45 million in 1978 to \$132 million in 1982 and represented 74% of total third-party loans in 1982. Total interest expense which was \$7 million in 1978 rose to \$32 million by 1981. Interest costs amounted to \$26 million in 1982 as increased debt was somewhat offset by declining interest rates in that year. (Pages 42, 43 and 84)

- For eight of the sampled companies, which represent 15 percent of all assets in 1982, equity amounted to less than 20 percent of assets. These companies will have difficulty surviving without major long-term improvement in their profitability. (Pages 51 to 53)
- The remaining twelve sampled processors, with 85 percent of the industry assets, should be capable of surviving without outside intervention if further financial and market setbacks can be avoided. However, a number of companies in this group, with assets totalling around 60 percent of the sample, are in a weakened financial position, with equity to assets below 40 percent. Some of these companies might not survive a further industry downturn or continued poor profitability. (Pages 51 to 53)
- Only a modest amount of new investment is planned for the next few years by industry participants because of constraints on resource availability, and also because of apparently sufficient existing capacity. (Pages 64 and 65)

#### 1.4 CONCLUSIONS

- In order for the industry to return to reasonable financial stability, which could be represented by an equity to assets ratio of at least 40 percent, the sampled processors require a minimum of \$135 million in equity, that is, at least \$20 million more than the \$115 million of equity including private loans that they currently have. (Page 89)
- If equity were increased to \$135 million, the processors would have to earn about a \$20 million after-tax profit on this investment to obtain a satisfactory return on equity of, say, 15 percent. (Pages 89 and 90)

- Gross profit margins, which were about 12 percent in 1981 and 1982, must rise to about 18 percent for an adequate return on investment to be earned. It does not appear that this increase in gross margins can come from higher selling prices. (Page 90)
- A condition for long-term processor profitability is a lower cost of production, which appears to require a change in the current cost structure of the B.C. fishery. The cost of raw fish is too high for B.C. processors to earn an adequate return on investment, given current world market price constraints and assuming a reasonable level of efficiency of processor operations. (Pages 90 and 91)
- Since many of the B.C. fish processors are in need of capital themselves, they do not appear to be a likely source of financial support for a primary sector restructuring program that might lead to a lower cost of raw fish. (Page 91)



## 2.0 INTRODUCTION, SCOPE AND METHODOLOGY

### 2.1 BACKGROUND

The Federal Department of Fisheries and Oceans was asked by its Minister to prepare analyses of the state of the West Coast fishing industry to assist in government discussion of the various issues and recommendations arising from the work of The Commission on Pacific Fisheries Policy, which submitted its final report in September 1982. The Minister plans to submit recommendations to his Cabinet colleagues later this year that will address the critical issues presently facing the Pacific fisheries.

Several studies of the primary and secondary sectors of the industry were undertaken in the latter part of 1983 to provide input to the development of final recommendations within the Department. This report presents the findings of a study conducted by Clarkson Gordon which focused specifically on the financial performance of the British Columbia fish processing industry for the years 1978 through 1982.

This analysis is intended to provide the Department and the Minister with an understanding of the present financial position of the processing sector. It is also intended to provide background on the specific question of the financial capacity of the processing sector of the industry to participate in primary sector fleet restructuring.

The assignment undertaken by Clarkson Gordon involved the collection of financial and operating data from individual B.C. fish processors, the development of an automated database incorporating the information collected and analysis of the resultant data to evaluate the

financial condition of the industry. As the matters under consideration were urgent because of the considerable desire within Government to deal with the industry issues in the very near future, Clarkson Gordon was requested to carry out its assignment under a very tight deadline.

The information collected by Clarkson Gordon from the fish processing companies was obtained under the specific understanding that it would be kept strictly confidential. The contract governing the project states that only consolidated data or data based on averages will be released to the Government. No individual organization, company or Government department will have access to individual company information.

To oversee the assignment, a Steering Committee was established consisting of representatives of the Fisheries Association of British Columbia, independent processors, Clarkson Gordon and the Federal Department of Fisheries and Oceans. The Ministry of the Environment, Marine Resources Branch, and the Ministry of Industry and Small Business Development, Province of British Columbia were also invited to participate on the Steering Committee.

## 2.2 INTRODUCTION TO THE REPORT

In this report, we present the 1978 to 1982 financial and operating results of the sample of B.C. fish processors who were surveyed during September and October 1983. The detailed consolidated statements of the sampled processors may be found in Appendix One, while an analysis of the collected data is presented in Chapters 4 and 5.



This chapter sets out the scope and methodology of the survey. Chapter 3 presents some of the key characteristics of the B.C. industry which are intended to help in understanding the financial results presented later in the report.

Chapters 4 and 5 of the report contain our analyses of the findings from the sample survey. They are supplemented by data tables in Appendix One which contain income statement and balance sheet information consolidated for all respondents.

The report concludes with Chapter 6 which provides a summary of the study implications in regard to the future of the fish products industry in British Columbia.

The report is summarized in the "Highlights of the Report" section which immediately preceded this Chapter.

### 2.3 SCOPE OF THE STUDY

Clarkson Gordon was retained by the Department of Fisheries and Oceans to compile historical financial and operating data relating to the fish processing sector in British Columbia. From this data base of information, the financial performance of the industry was analyzed.

The data collected was to be for the years 1978 through 1982, drawn primarily from individual company records including:

- o annual audited financial statements, both the income statement and balance sheets, and detailed data underlying the annual statements,
- o annual records of sales in dollars and units by major classifications of fish products,

- o year-end summaries of inventories by major classifications of product, and
- o annual cost of production records.

All fish processors in the Province of British Columbia were to be included in the study, to the extent possible. The data were to be assembled on a plant by plant basis whenever available.

The objectives of this study and the methodology for data collection were discussed and agreed to at a meeting of the Steering Committee for this project held in Vancouver on August 25, 1983.

## 2.4 METHODOLOGY

### 2.4.1 Identification of Participants in the B.C. Fish Processing Sector

The first step in the study was to identify participants in the B.C. Fish Processing Sector. Although the Marine Resources Branch of the Provincial Ministry of the Environment is responsible for licensing all processors in the Province and maintains records of names and addresses of all licencees, the number of processing companies active in the industry is smaller than the number of licences issued. One reason for this is that some firms operate more than one plant and a separate licence is required for each. Another reason is that certain buyers and brokers maintain a processing licence for handling fish for freezing.

In order to identify active processors with significant volumes of processed product, several sources of information on the industry were consulted:

- o The Department of Fisheries and Oceans drew up a preliminary list of names of processors, including members of the Fisheries Association of British Columbia, the B.C. Seafood Exporters' Association and a number of independent processors known to the Department, including members of the Vancouver Wholesale Fish Dealers Association and the Prince Rupert Fish Exchange.
- o At the initial meeting of the Steering Committee on August 25, 1983, Committee members were invited to review the list and add any additional names which they believed should be included. A few of the names already on the list were identified as being parts of other operations or as buyers but not processors and hence were deleted from the list.
- o At the same meeting, representatives of the Provincial Marine Resources Branch were consulted regarding any additions to the list which they felt should be made based on the Province's knowledge of active processing companies. Several additional names were provided as a result of this consultation.

At the end of this process, a total of 35 companies were identified as possible respondents to the study survey, with several of these operating more than one plant.

Following the identification of the target group of participants, a letter was drafted explaining the purpose of the study and its requirements. This letter was signed by Mr. Harvey Wright, Manager of the British Columbia Seafood Exporters' Association (B.C.S.E.A.) and was sent to all prospective participants who were members of that Association or the Fisheries Association of B.C. These letters were delivered by courier on August 30th and 31st, 1983.

A second letter with the same purpose was prepared under the signature of the Minister of Fisheries and Oceans. This letter was to be sent to all participants who were not members of the B.C.S.E.A. Due to

unavoidable circumstances, these letters did not reach participants until around the middle of September 1983.

Copies of these introductory letters are included in Appendix Three for reference.

Shortly after participants had received these letters, Clarkson Gordon began to contact them by telephone to arrange an interview date to collect the data required. At this time, Clarkson Gordon also delivered to the participants copies of the questionnaire which was to be used for the collection of data.

During the initial calls, it became apparent that certain of the companies were not presently active processors. In total, 7 such companies were identified.

Over the course of the data collection period, some other companies indicated that they were not willing to participate in the survey. These non-participants amounted to 7 companies in total. Two of these companies, on Vancouver Island, indicated late in the study period that they would not co-operate with the study process, as the Association they belong to on the Island, the Vancouver Island Seafood Buyers Association, had not been asked to participate on the Steering Committee. Although they acknowledged that this Association was primarily made up of buyers rather than processor members, it was too late in the study process to resolve these companies' concerns and include them and one other member of the Association in the study sample.

| <u>Processor Affiliation</u>        | <u>Participating</u> |               | <u>Not Participating</u> |
|-------------------------------------|----------------------|---------------|--------------------------|
|                                     | <u>Companies</u>     | <u>Plants</u> | <u>Companies</u>         |
| Fisheries Association of B.C.       | 6                    | 7             |                          |
| B.C. Seafood Exporters' Association | 7                    | 16            |                          |
| Independent                         | 8                    | 11            | 7                        |
| Non-Processors                      | -                    | -             | <u>7</u>                 |
| Totals                              | <u>21</u>            | <u>34</u>     | <u>14</u>                |

In Appendix Four, we provide the names of all processors contacted and indicate which participated in the survey and which did not.

#### 2.4.2 Design of the Questionnaire

A draft of the questionnaire used to survey the financial and operating results of B.C. fish processors was prepared by Clarkson Gordon in consultation with the Department of Fisheries and Oceans for discussion and review at the initial meeting of the Steering Committee on August 25th. A copy of the questionnaire is provided in Appendix Five. Considerable time was spent at this meeting reviewing the questionnaire and concerns were raised by industry representatives about the length and detailed nature of certain of the information requested.

Several revisions to the questionnaire were suggested at this meeting by industry representatives to shorten it and make it more meaningful. These revisions were made by Clarkson Gordon and the revised questionnaire was sent to the Fisheries Association of British Columbia



for further review and comment. Attendees at the meeting were also asked to consider the questionnaire further after the meeting and to telephone suggestions into Clarkson Gordon.

No further amendments were suggested by industry representatives, but some further requests for data were made by the Department of Fisheries and Oceans' staff in Vancouver. As these data requests would have lengthened the revised questionnaire and might have presented difficulties for some companies in supplying the data, only minimal changes were incorporated in the final questionnaire.

As indicated earlier, questionnaires were delivered to processors by Clarkson Gordon shortly after they had received letters requesting their participation in the study. Questionnaires were distributed to Fisheries and Seafood Exporters' Association members early in the week of September 3rd, and to independent companies around mid-September.

#### **2.4.3 Questionnaire Follow-Up**

Clarkson Gordon staff members maintained contact with all study participants during the data collection period. In some cases, participants indicated that they preferred to complete portions of the questionnaire themselves, then review and complete it with Clarkson Gordon assistance. In other cases, Clarkson Gordon staff visited company premises or spoke with company accountants and actively participated in compilation of the required data. Whenever a company indicated that it was too busy to fill in portions of the questionnaire, Clarkson Gordon offered to work on the company's premises to extract data from available



records, or to estimate data based on management's general knowledge of operations. From a few hours to one to two days were spent working with many of the respondents.

Respondents were asked to provide data that would tie into their audited financial statements. Clarkson Gordon ensured that the data agreed to the audited statements but did not verify the collected data in any manner, except for certain tests of reasonableness.

It became apparent in a number of instances that considerably more time would be required to collect the data than initially allowed for in the original study timetable. This factor, coupled with the unavoidable delays in sending out some of the introductory letters, resulted in the data collection period being extended. This extension allowed certain companies, for example B.C. Packers, to prepare detailed analyses of operations; in the case of B.C. Packers, on a plant by plant basis. These analyses could not have been prepared in the initial study timeframe.

The extended timeframe also allowed sufficient time to persuade certain participants to provide input, although they had expressed initial reluctance in doing so.

#### **2.4.4 Returns and Tabulations**

Returns were received from 21 processors, representing 34 plants, which formed the basis of the sample data. In addition, B.C. Packers provided operating detail, but no financial or sales detail, on each of its plants in the Province. Although several of the other processors operated more than one plant, no other processor was able to provide any

information on a plant by plant basis. Of the 21 reporting processors, only one refused to provide any financial data and gave only operating information.

The information contained in the questionnaires was entered into a computer base, tabulated and consolidated in a number of different ways in order to isolate common characteristics of processors with better and worse operating results. Ratio analyses were performed to assist in these analyses.

The steps which were followed to input and use the data base are described below.

- The computer model development work for the project began with the analysis of the questionnaire in order to determine: how the model would be structured, data input requirements, and report outputs.
- A blank respondent questionnaire was coded into 117 sections (rows), each of length up to 88 characters (columns) in preparation for keypunching. As each of the 27 completed questionnaires were received (which covered 34 processing plants), it was checked for any apparent errors or omissions, and then coded using the input format before being sent for keypunching.
- Key entry of the data from each questionnaire was done through an outside supplier, Business Data Processing (BDP). Clarkson Gordon developed entry processes with BDP.
- At BDP, the input survey data was punched onto 1600 BPI (bits per inch) magnetic tape using EBCDIC (Extended binary coding) with a blocking factor of 1 and a blocking size of 88.
- The file structure to be used in storing the keypunched raw data was designed once the input layouts had been determined. The data for all respondents was stored in a file of 17 components (character and numeric) of varying size and dimensions. Each component incorporated a part or whole or combination of one or more schedules found in the questionnaire.

- Based on the file structure, several tapes of input data were loaded onto the I.P. Sharp timesharing system, the outside service bureau we use very regularly, and which was used for this project.
- A conversion program was written to connect the stored character data into numerical data suitable for manipulation. This data was stored on files first labelled RAW DATA which were later relabelled NUMERICAL DATA, then FINISHED DATA, and then finally COMPLETED DATA to reflect ongoing improvements to it. In all, 19 data files were used.
- A set of system security passwords and processes were developed to secure the system and the data.
- The main functions for performing the required calculations and producing the 10 desired individual reports were written. These included utility, calculation, report, and specific purpose functions. In addition, several logic verification routines were written to assist in the checking of the input data.
- The raw data was run and individual plant data was output for checking. Problem areas in both the program and the data were identified and corrected by our personnel in the Toronto and Vancouver offices.
- Functions designed to facilitate speedy and reliable editing were written, tested and used to correct detected errors.
- Functions were written that consolidated individual plant data by groups and distinct output reports were produced for each group.
- Consolidations were run and revised. Eleven files were used to temporarily store the individual and consolidated reports.
- Final editing and program changes were specified and any previously imperfect reports were rerun.
- The entire program (all functions) for this job was written in APL computer language. This language was used because of the great amount of data (especially matrix) manipulation demanded and the ease and speed at which APL can handle large quantities of data. The I.P. Sharp IBM 4043 mainframe computer was accessed via portable desk-top miniterminals using Bell Canada telephone communication lines. Most of the printing was performed on the I.P. Sharp highspeed printing facilities in Toronto and Vancouver.

- Since the Pacific Fisheries project was in its first year, and thus no prior data were available, it was felt that as much relevant data as possible should be established in the data-base. As such, the data from all 27 returned questionnaires were used in the analysis. Incompleteness of any one of the surveys was not found to be sufficient reason to wholly exclude it from the study.
- The data is now stored on-line for rapid access. Depending on the frequency of use, a decision will be made on the lower cost storage method, that is, on-line or off-line.

These resultant data were compared to financial information available from Statistics Canada on the British Columbia fish products manufacturing industry as a whole. The comparison was performed to ensure that we had an adequate sample of the entire population.

Data obtained from the questionnaires completed by individual processors are confidential and, as such, only information consolidated in various ways, or as ratios, is presented in this report, to ensure that individual plant data could not be identified.

#### **2.4.5 Draft Report and Report Finalization**

A draft of this report was made available to members of the Steering Committee on November 1, 1983 for detailed review and discussion at a Steering Committee meeting on November 3, 1983.

The findings of the survey were generally accepted by the Steering Committee as set out in the draft report. No other significant analyses of the data were requested, with two exceptions:

- further examination of the non-recurring income (loss) item on the income statement; and

- collection of data to determine the extent to which processors had guaranteed loans to the primary sector.

These analyses were subsequently carried out.

Discussion of the draft report focused primarily on the implications of the survey findings, particularly with respect to the ability of the processing sector to support fleet restructuring programs in the primary sector. Where relevant to an understanding of the survey findings, an attempt has been made to incorporate in the report matters arising from the Steering Committee discussion.

#### **2.4.6 Future Use of Survey Data**

The financial data used to prepare this report are stored in an electronic data bank under the control of Clarkson Gordon. A number of different accumulations of the income statement and balance sheet data were made in an attempt to identify trends based on a number of variables. Summaries of these data and further analyses can be requested, with such requests being directed to the Department of Fisheries and Oceans, Economic Policy Branch, Ottawa. Each request for further analysis must also be approved by representatives of the fish processing industry in British Columbia.



### 3.0 CHARACTERISTICS OF THE INDUSTRY

#### 3.1 INTRODUCTION

As a perspective to the financial condition of the British Columbia fish processing sector, this chapter provides a brief overview of the commercial fish products manufacturing industry as a whole in British Columbia. In preparing this section we made extensive use of material prepared by the Fisheries Association of British Columbia in its recent Status Report on The Fishing Industry and confirmed the contents of this chapter through discussions with participants in the processing sector during the course of our study.

#### 3.2 OVERVIEW OF THE B.C. COMMERCIAL FISHERY

British Columbia produces only about 10 percent of the total volume of fish harvested by Canada; however, it accounts for 30 percent of the total value of the Canadian fisheries. By far the most important species (in terms of both volume and value) harvested by the B.C. industry is salmon. The second most valuable species in B.C. is Pacific herring, the bulk of which is sold to the Japanese roe market. Groundfish and shellfish production is relatively low in B.C. compared to Eastern Canada.

Approximately 75% of Canadian and B.C. salmon is sold to export markets. However, Canada's share of world salmon supply is only about 13 percent. As a result, Canada cannot be considered a dominant force in the world-wide marketplace, or in establishing world prices for salmon products.



Many markets are dominated by salmon supply from the United States, primarily from the Alaskan fishery. Certain other markets, of which Japan is an example, have very significant domestic supplies in certain species.

The roe fishery component of the Pacific herring industry is also highly export-oriented. Japan is the lone market for herring roe and Canada competes with several other countries in supplying this market.

Between 1973 and 1979, Canadian processors were able to obtain prices and exchange rate advantages in export and domestic markets that allowed them to cover rising cost factors, while generating a steady return. In salmon for example, the amount processors paid B.C. fishermen for their catch salmon tripled over the 1973 to 1979 period, although catch levels fell by about one-third. However, finished goods market prices increased so significantly that processors still earned favourable profit margins to the end of 1978.

By 1980 this trend had reversed: product demand for both salmon and herring roe lessened, prices fell and monetary exchange rate advantages began to reverse as the Canadian dollar rose against European and Japanese currencies. Monetary exchange effects were generally unfavourable to Canadian processors in the 1980 to 1982 period, whereas they had been generally favourable in the 1970's.

The B.C. fishery also faced an increasingly significant competitive situation. B.C. has a relatively low share of world supply and of market share. Its principal competitor is the Alaskan fishery which has been increasing its production in the last decade while that of B.C. has been quite stable for many years.

A significant difference between the B.C. and Alaskan salmon fisheries is that the Alaskan salmon fishermen currently out-produce the B.C. fishermen by better than 2:1 in terms of pounds caught per fisherman. Although Alaskan fishermen receive substantially less per pound for their fish, their average gross income per person is higher than that of a B.C. fisherman because of higher volumes and lower harvesting costs per pound of fish. One result of the Alaska situation is that the Alaskan industry can market its products at lower prices than B.C. processors, thus providing very stiff competition even in the Canadian domestic market.

In 1982, another factor affected the world market for canned salmon products particularly. Early in the year, botulism poisoning was attributed to a can of Alaskan salmon product shipped to Belgium. As a result of the incident, market demand for all canned salmon products dropped in many markets, particularly in the United Kingdom, and surplus stock of product became a problem throughout the distribution chain.

### 3.3 OVERVIEW OF PARTICIPANTS IN THE B.C. FISHING INDUSTRY

The largest sector of the B.C. fishing industry is the primary fishing component. In 1982 the B.C. fishing fleet was composed of some 6,600 vessels, as follows:

|                                        | <u>Approximate No.</u> |
|----------------------------------------|------------------------|
| Large Boat Fleet - Seine Boats         | 538                    |
| Small Boat Fleet - Gillnet/Troll Boats | <u>4,025</u>           |
| Total Salmon/Herring Fleet             | 4,563                  |
| Other Fleet                            | <u>2,080</u>           |
| Total Licensed Fleet                   | <u>6,643</u>           |

It is estimated that these vessels are manned by over 17,000 fishermen, the majority of whom fish on a part-time basis. Onshore, the fishing industry employs some 6,000 shoreworkers and 750 staff in the processing sector.

### 3.4 PRIMARY SECTOR FLEET DEVELOPMENT

In the early 1970's the fleet consisted mostly of smaller vessels. A common pattern of financing the fleet at that time was that the fish processing companies advanced financing to fishermen to assist in the purchase of the vessels and major pieces of equipment, as well as for major repairs and maintenance. The result was a close relationship between a fisherman and one processing company.

The amount of debt owed in 1970 on about 3,000 vessels of the total fleet was small by today's standards. Over one-third of the financing was extended by processors. One estimate of debt during the early 1970's was as follows:

THE B.C. FISHERY PRIMARY SECTOR  
SELECTED DATA ON DEBT<sup>(1)</sup>

|                             | 1970            |                             | 1974            |                             |
|-----------------------------|-----------------|-----------------------------|-----------------|-----------------------------|
|                             | # of<br>Vessels | Total<br>Debt<br>(Millions) | # of<br>Vessels | Total<br>Debt<br>(Millions) |
| Processing companies        | 1,302           | \$ 7.9                      | 652             | \$6.8                       |
| Credit unions               | 440             | 4.8                         | 325             | 8.2                         |
| Banks                       | 585             | 4.8                         | 1,203           | 20.0                        |
| Banks and companies         | 133             | 1.7                         | 127             | 4.1                         |
| Credit Unions and companies | 37              | .4                          | 13              | .4                          |
| Other                       | <u>322</u>      | <u>2.4</u>                  | <u>349</u>      | <u>5.8</u>                  |
| Total                       | <u>2,819</u>    | <u>\$22.0</u>               | <u>2,669</u>    | <u>\$45.3</u>               |
| \$ Per Unit                 |                 | <u>\$7,800</u>              |                 | <u>\$17,000</u>             |

During the mid-1970's the pattern of financing of the fishing fleet began to change. By 1980, debt owed to the processing companies by fishermen had risen to over \$21 million, more than double the 1974 amount. However, this now covered but a small fraction of the investment in fleet, or the debt thereon, for the primary sector had engaged in a massive period of capitalization in the mid to late 1970's, and had utilized third-party sources of financing to support this expansion. Much of this capitalization related to introduction of new large vessels to the fleet.

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(1) We wish to acknowledge the following paper used extensively in preparing the material on the primary sector contained in this section of the report:

John L. McMillan, State, Capital and Debt in the British Columbia Fishing Fleet From 1970-1982, paper presented to Canadian Political Science Association meeting in Vancouver, June 1983.

Recently, the capital value of the B.C. primary fishing fleet was estimated to be as follows:

| <u>Capital Values in 1982</u>          | <u>1969</u><br>(Millions of \$'s) | <u>1982</u>  |
|----------------------------------------|-----------------------------------|--------------|
| Value of Licenses                      | \$ 0                              | \$145        |
| Capital Value of Vessels               | <u>91</u>                         | <u>432</u>   |
| Total Capital Value                    | <u>\$91</u>                       | <u>\$577</u> |
| <u>Debt Structure in 1982 re above</u> |                                   |              |
| Processing Company Loans               |                                   | \$ 21        |
| Fisheries Improvement Act Loans        |                                   | 55           |
| Credit Union Loans*                    |                                   | 55           |
| Bank Loans*                            |                                   | <u>200</u>   |
| Total Loans                            |                                   | <u>\$331</u> |

\*Includes \$6 million in loans guaranteed by processors

The investment in fleet during the 1970's must be compared to the value of the salmon catch to fully appreciate how extensive the investment has been. In 1973, fishermen in B.C. received \$63 million for the 190 million pounds of fish they caught. This almost tripled to \$180 million in 1979, for two-thirds the amount of fish. During the period, selling prices also rose much faster than inflation but, as would be expected, the market finally reacted and prices weakened in 1980.

In 1982 the salmon catch was down in value to about \$160 million, and we understand that it will be well below this figure in 1983. It is difficult to visualize how this value of salmon catch can support about \$600 million of capital assets, the present investment in fleet.



Unlike the primary sector, the processing sector did not add as rapidly to its capital asset base in recent years. As a result, at the end of 1982, the processors in our sample, which appear to represent 85 to 90 percent of the assets of the entire B.C. processing sector in 1982, had \$65 million in land-based fixed assets (i.e. land, buildings, equipment, rolling stock) on their balance sheets. Although this figure does not account for added investment in the form of public freezer space that various industry members rent, it is apparent that the processors' investment in land-based fixed assets, at \$65 million, is far less than the over \$500 million invested in the fishing fleet by the primary sector.

The dramatic change from processor-supplied debt to third-party debt to finance capital assets in the primary sector did not necessarily result because processors sought to withdraw from financing the fishing fleet. Rather, this change was inevitable because the processors did not have the level of capital, about \$300 million, that the primary sector sought and acquired, in recent years.

### 3.5 CURRENT FINANCIAL SITUATION IN THE B.C. FISHING INDUSTRY

Many B.C. fishermen currently find themselves in a difficult financial situation. This has occurred at the same time that processors have seen their equity reduced. During the boom years of 1977 to 1979, the industry as a whole entered into major capital expansion programs, especially in the primary sector. Many fishermen bought new boats or new equipment; some processors expanded facilities and some new processors started up. Large loans were sought by industry participants and were extended by banks and other lenders.



The downturn in market demand and high interest rates in the 1980 to 1982 period have resulted in a number of fishermen and some processors being unable to meet their debt commitments. In the primary sector, those still able to service their debt nevertheless began to demand a higher return for their fishing effort in order to justify the heavy investment in fleet. As the remainder of this report will demonstrate, the processors have been unable to increase market prices to end consumers to cover any increases in the costs of raw material supplies and operations, or to earn a profit on their investment. At the same time, the prices they pay fishermen apparently do not provide the primary sector with an adequate return.

The remainder of this report sets out the financial condition of the B.C. fish processors based on a consolidation of actual operating and financial results for the years 1978 through 1982.

## EXHIBIT 1

SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY  
COMPARISON OF THE SAMPLE TO THE TOTAL FISH PRODUCTS INDUSTRY IN BRITISH COLUMBIA

|                                       | 1978                    |                   |                     | 1979                    |                   |                     | 1980                    |                   |                     |
|---------------------------------------|-------------------------|-------------------|---------------------|-------------------------|-------------------|---------------------|-------------------------|-------------------|---------------------|
|                                       | All Plants<br>In Sample | Total<br>Industry | Sample/<br>Total(%) | All Plants<br>In Sample | Total<br>Industry | Sample/<br>Total(%) | All Plants<br>In Sample | Total<br>Industry | Sample/<br>Total(%) |
| Financial Information<br>(\$ million) |                         |                   |                     |                         |                   |                     |                         |                   |                     |
| Total Assets                          | \$255.5                 | \$270.5           | 94.5%               | \$287.9                 | \$336.2           | 85.6%               | \$303.9                 | \$366.3           | 83.0%               |
| Equity                                | 100.3                   | 103.0             | 97.4%               | 95.7                    | 109.1             | 87.7%               | 93.8                    | 96.4              | 97.3%               |
| Sales                                 | 458.2                   | 467.1             | 98.1%               | 485.3                   | 533.6             | 90.9%               | 431.8                   | 525.8             | 82.1%               |
| Total Assets<br>to Equity             | 254.7%                  | 262.6%            |                     | 300.8%                  | 308.2%            |                     | 324.0%                  | 380.0%            |                     |
| Number of Plants<br>Reporting         | 30                      | 57                | 52.6%               | 32                      | 64                | 50.0%               | 33                      | 70                | 47.1%               |

Source: Statistics Canada Publication 61-207  
and Special Data Extracted from it.

#### 4.0 ANALYSIS OF HISTORICAL FINANCIAL CONDITIONS

##### 4.1 COMPARISON OF THE SAMPLE TO THE TOTAL FISH PRODUCTS INDUSTRY

Before using the sample, it was necessary to ensure that it represented a sufficiently large portion of the entire fish products industry. To do this, data were obtained from Statistics Canada, Business Finance Division, on total assets, equity, sales and profit before and after tax for fish products companies filing income tax returns in British Columbia. These data were obtained from base data used to prepare Statistics Canada's Publication '61-207'. There is a significant lag in the compilation and publication of 61-207. As a result, 1981 and 1982 data were not available.

Exhibit 1 provides a comparison of summary financial information from the sample of plants surveyed for this study to the total B.C. fish products industry statistics. Key financial ratios have also been calculated for comparison.

Examination of Exhibit 1 indicates several interesting trends:

1. The number of reporting entities in the B.C. fish products industry increased substantially over the 1978 to 1980 period from 57 to 70.
2. Industry sales increased in 1979 over 1978 but fell in 1980.
3. Total assets in the industry grew in value over the 1978 to 1980 period but total equity fell in 1980 after an increase in 1979.
4. In 1978, the assets to equity ratio was relatively favourable in the industry but deteriorated substantially by 1980.

Examination of Exhibit 1 also indicates that the sample used in this report includes over 80% of the B.C. processing industry assets and sales, and over 90% of industry equity in 1980, and even a higher level in 1978.

The sales of the sample group have declined as a percentage of B.C. industry sales over the 1978 to 1980 period (despite an increase in sample reporting plants from 30 to 33), reflecting increased activity from plants not in the sample, some of which are no longer in business.

Although the equity base of the sample group declined gradually over the 1978 to 1980 period, the equity base of other industry participants fell dramatically from 1979 to 1980. Overall in the industry, the ratio of total assets to equity grew significantly over the 1978 to 1980 period.

In view of the above, it can be concluded that the sample in this report is representative of a major portion of the British Columbia industry. Those companies not included in the sample appear to be poorer performing companies on average, or companies with very little equity or assets. Although a significant number of companies entered the fish processing industry in the 1978 to 1980 period, we understand that several of these firms no longer operate as processors.

#### 4.2 COMPARATIVE INDUSTRY RATIO ANALYSES

The Canadian fish products industry has, relatively speaking, had less equity and more debts than other food processors, resource-based industries, or all manufacturing industries in recent years. As a result,



it is much more vulnerable to cyclical downturns than other comparable industries.

To illustrate the above, Exhibit 2 on the page opposite compares data for the entire Canadian fish processing industry with several selected industry categories based on Statistics Canada's publication 61-207. Data for the British Columbia processors are also provided for comparative purposes.

The industry categories selected for comparison are Meat Products, Total Food Products, Total Wood Industries and Total Manufacturing Industries. All of these are considered manufacturing industries, with Food Products being a sub-set of Manufacturing Industries, and Fish Products and Meat Products being components of Food Products. Wood Industries was selected as a comparative industry, because a large amount of product is harvested and processed in Canada and is then exported as occurs in the fishing industry. The industry is also cyclical.

The British Columbia data, both from Statistics Canada and from the study sample, are shown in the first column. Although British Columbia represents only about one-third of the Canadian data, available information indicates that the 1980 performance of the B.C. processing industry, as a whole and as represented by the study sample, was better in some respects than the all Canada data shown for the national fish products industry, yet not as favourable as the performance of the other comparative industries.

Exhibit 3 presents the 1977, 1978, 1979 and 1980 data for the Canadian fish products industry. These data show a significant



## EXHIBIT 3

**SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY  
HISTORICAL FINANCIAL RESULTS - CANADIAN FISH PROCESSING INDUSTRY**

|                                               | <u>1977</u> | <u>1978</u> | <u>1979</u> | <u>1980</u> |
|-----------------------------------------------|-------------|-------------|-------------|-------------|
| <u>Financial Information</u><br>(\$ millions) |             |             |             |             |
| Total Assets                                  | \$633.5     | \$837.3     | \$1,110.0   | \$1,312.3   |
| Long-term Debt                                | 95.0        | 138.7       | 188.6       | 306.2       |
| Equity                                        | 228.6       | 254.4       | 310.4       | 287.7       |
| Sales of Products                             | 1,094.5     | 1,451.3     | 1,756.2     | 1,851.6     |
| Cost of Sales                                 | 908.6       | 1,176.0     | 1,507.2     | 1,628.2     |
| Net Profit After Tax                          | 40.6        | 60.3        | 43.0        | (16.6)      |
| <u>Ratios</u>                                 |             |             |             |             |
| Assets to Equity                              | 277.1%      | 329.1%      | 357.6%      | 456.1%      |
| Long-Term Debt to Equity                      | 41.6%       | 54.5%       | 60.8%       | 106.4%      |
| Current Ratio                                 | 1.3         | 1.3         | 1.2         | 1.1         |
| Gross Margin                                  | 17.0%       | 19.0%       | 14.2%       | 12.1%       |
| Profit After Tax<br>on Equity                 | 16.6%       | 21.6%       | 13.9%       | (5.8)%      |
| Profits After Tax to Sales                    | 3.7%        | 4.2%        | 2.4%        | (0.9)%      |
| Number of Corporations                        | 279         | 300         | 339         | 363         |

Source: Statistics Canada, publication 61-207

deterioration of the financial strength in the industry, brought on largely by investment in assets without a corresponding increase in equity. While 1978 and 1979 were deemed to be good years in the industry, on both Coasts, 1980 results showed a considerable deterioration in performance.

A review of Exhibit 3 clearly indicates that the 1977 to 1980 period was a time when the total Canadian industry expanded its asset base, with much of this expansion taking place in Atlantic Canada rather than in B.C. The expansion was partly in response to the 200 mile limit; partly in response to various government efforts to stimulate expansion; and, on the West Coast, partly due to rising market demand for both salmon and herring roe. However, late in 1979, the market for herring roe collapsed and the Alaskan fishery continued to outperform B.C. in catch levels and marketing of salmon products. Similarly, on the East Coast, an economic downturn reduced market demand for fish products.

As a result, the 1980 data for the Canadian fish products industry clearly indicate that the industry was financially overextended, particularly on the East Coast; but this conclusion also applies to the West Coast and is further borne out by the 1981 and 1982 results of the B.C. fish processors in our sample.

The remainder of this section consists of a brief commentary on each of the ratios shown on the lower half of Exhibits 2 and 3. A concise definition of each ratio is provided in Appendix Two.

#### 4.2.1 Assets to Equity

This ratio indicates the balance between assets held and the level of financing of these assets through shareholders equity. A high ratio is considered to be unfavourable for it indicates lower shareholder investment relative to the assets of the organization. The 1980 data indicate that the Canadian fish products industry had significantly less equity per dollar of assets than any other industry group. 1980 data for the B.C. sample also showed a ratio of assets to equity of 324.0%, which was worse than any other group (except fish in Canada as a whole, which included the undercapitalized Atlantic fishery).

The 1977-1980 data indicate that a significant amount of investment in assets in the B.C. fish products industry occurred in 1978 and 1979.

#### 4.2.2 Long-Term Debt to Equity

This ratio indicates the relationship between long-term borrowings and capital invested by shareholders. This ratio shows almost four times the amount of long-term debt to equity in the Canadian fish products industry as the other comparable industry groupings, except for wood products. Even in the case of wood products, debt to equity for fish products is twice that of the wood products industry. 1977-1980 data show that substantial increases in leverage occurred in each of 1978, 1979 and 1980.

The level of long-term debt resulted in favourable returns on equity in 1977 and 1978, but by 1979 profits began to fall and the industry was in a highly levered, exposed position to face the following years.

More specific discussion of these trends for the B.C. industry is provided in Section 4.3.

#### 4.2.3 Current Ratio

This ratio measures short-run debt paying ability; a higher ratio is preferred. In addition to the heavier long-term debt position, the Canadian fishing industries' current ratio position at 1.1 in 1980 (having slipped from 1.3 in 1977 to 1978) was below the 1.4 to 1.7 average for other industries; another indication of a lack of financial strength.

An examination of the detail underlying the ratios also indicates that a high proportion of the liabilities were short-term bank loans, once again indicating the levered position of the industry.

#### 4.2.4 Gross Margin

This ratio, which shows whether the mark-up on cost relative to selling price is sufficient to show a profit, can vary widely by industry. In spite of variations among industries, it should still be noted that, in 1980, the Canadian fish products industry had lower margins than food or total manufacturing. It did have better margins than meat, but this is a much quicker turnover industry, able to operate on lower gross margins.

More noteworthy is the fact that the fish products industry ratio began to deteriorate in 1979 to a level of 12.1% in 1980.

#### 4.2.5 Profit After Tax on Equity

This ratio measures the return that shareholders in a business have earned on their investment. The favourable results of 1978 (21.6%) deteriorated in 1979 (12.8%) and 1980 (negative 5.0%). The Canadian fish products industry fell well behind the other industries being compared. The British Columbia fish products industry showed an even poorer return on equity in 1980 than the Canadian industry as a whole.

It should be noted that, in the late 1970's, a return of 14% - 15% was generally considered to be an acceptable average result for this ratio for the industrial sector in Canada.

#### 4.2.6 Profit After Tax to Sales

This ratio, which measures profits relative to sales, simply reinforces the previous analysis, showing the clearly weak position of the Canadian fish products industry relative to other comparable industries.

#### 4.2.7 Conclusions

The ratio analyses provided in this part of this chapter indicate that the fish processing industry had become more debt levered than most other comparable industries by 1980. The B.C. industry was, however, in somewhat better condition than the Atlantic fish processors. Nevertheless, knowledge of what subsequently occurred in the Atlantic industry serves to indicate that it should not be used as a comparison base; rather, the condition of the B.C. processing industry should also be regarded as weak relative to the other comparable industries.

## EXHIBIT 4

## SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY

BASED ON GENERAL CONSOLIDATION  
 INCOME STATEMENT FOR YEARS 1978 - 1982  
 (AS A PERCENTAGE OF TOTAL NET SALES)

|                                      | <u>1978</u>    | <u>1979</u>    | <u>1980</u>    | <u>1981</u>    | <u>1982</u>    |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Net Sales<br>(\$ Million)      | <u>\$458.2</u> | <u>\$485.3</u> | <u>\$431.8</u> | <u>\$549.0</u> | <u>\$491.9</u> |
| Cost of Sales                        | <u>86%</u>     | <u>93%</u>     | <u>91%</u>     | <u>88%</u>     | <u>88%</u>     |
| Gross Profit                         | 14 %           | 7 %            | 9 %            | 12 %           | 12 %           |
| Selling, General,<br>Admin. Expenses | 6              | 5              | 6              | 6              | 8              |
| Interest Expenses                    |                |                |                |                |                |
| - Long Term Debt                     | 0              | 1              | 1              | 2              | 2              |
| - Short Term Debt                    | 1              | 2              | 4              | 4              | 4              |
| Depreciation                         | 1              | 2              | 2              | 2              | 2              |
| Income Taxes                         | 3              | (1)            | (2)            | 0              | 0              |
| Non-Recurring Items                  | <u>(1)</u>     | <u>(2)</u>     | <u>(2)</u>     | <u>(1)</u>     | <u>(1)</u>     |
| Net Income (Loss)<br>After Tax       | <u>4 %</u>     | <u>0 %</u>     | <u>0 %</u>     | <u>0 %</u>     | <u>(2)%</u>    |



The fish processing industry, similar to other resource-based industries, is subject to cyclical trends, both favourable and unfavourable. Most industries which must face such unpredictable change have significant equity, usually more than 40 percent of all assets, which enables them to withstand downturns. The B.C. fish processing industry had in excess of this level of equity at the end of 1978 (when private loans are included), but it now has dropped well below the 40 percent level. It is this exposure which makes the B.C. fish processing sector more vulnerable than other comparable industries at this period in time.

#### 4.3 ANALYSIS OF SAMPLE INCOME STATEMENT AND BALANCE SHEET DATA - CONSOLIDATED

This section provides an historical overview of the B.C. fish processing sector based on the consolidated financial results of the companies in our sample. Opposite this page and the next, in Exhibits 4 and 5, are summary consolidated data from the income statements and balance sheets of the reporting companies in our sample. Comments on significant aspects of the results shown in these Exhibits follow.

Full income statement and balance sheet data on a consolidated sample basis are set out in Appendix One. It should be noted that sales and asset data provided by the companies in the sample were for operations in Canada only, and also excluded, where possible, results of non-fish processing operations.

## EXHIBIT 5

## SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY

BASED ON GENERAL CONSOLIDATION  
 BALANCE SHEET FOR YEARS 1978 - 1982  
 AT FISCAL YEAR END OR DECEMBER 31  
 (AS A PERCENTAGE OF TOTAL ASSETS)

|                                                 | <u>1978</u>    | <u>1979</u>    | <u>1980</u>    | <u>1981</u>    | <u>1982</u>    |
|-------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Inventory                                       | 50 %           | 45 %           | 43 %           | 43 %           | 47 %           |
| Accounts Receivable                             | 15             | 13             | 15             | 18             | 13             |
| Fishermen's A/R                                 | 4              | 5              | 7              | 6              | 5              |
| Other Current Assets                            | 4              | 9              | 2              | 1              | 2              |
| Net Fixed Assets-Land                           | 18             | 16             | 19             | 19             | 20             |
| Net Fixed Assets-Water                          | 6              | 8              | 10             | 9              | 8              |
| Other Assets (excluding<br>non-fishing assets)  | <u>3</u>       | <u>4</u>       | <u>4</u>       | <u>4</u>       | <u>5</u>       |
| Total Assets (\$ Million)                       | <u>\$255.5</u> | <u>\$287.9</u> | <u>\$303.9</u> | <u>\$322.3</u> | <u>\$321.2</u> |
| Bank Loans-Current                              | 12 %           | 21 %           | 22 %           | 23 %           | 26 %           |
| Short Term Credit Union<br>or Finance Co. Loans | 3              | 4              | 5              | 5              | 3              |
| Short Term Loans from<br>Significant Customers  | 0              | 1              | 1              | 2              | 1              |
| Other Current Liabilities                       | 23             | 20             | 15             | 18             | 17             |
| Bank Loans-Long Term                            | 6              | 8              | 15             | 14             | 15             |
| Long Term Credit Union or<br>Finance Co. loans  | 0              | 0              | 0              | 0              | 0              |
| Private Loans                                   | 13             | 10             | 9              | 8              | 10             |
| Public Debt Issues                              | 0              | 0              | 0              | 0              | 0              |
| Long Term Loans from<br>Significant Customers   | 0              | 0              | 0              | 0              | 0              |
| Other Long Term Liabilities                     | 4              | 3              | 2              | 1              | 1              |
| Shareholders Equity<br>(Deficiency)             | <u>39</u>      | <u>33</u>      | <u>31</u>      | <u>29</u>      | <u>26</u>      |
| Total Liabilities<br>and Equity                 | <u>100 %</u>   | <u>100 %</u>   | <u>100 %</u>   | <u>100 %</u>   | <u>100 %</u>   |

#### 4.3.1 Sales History

Over the 1978 to 1982 period, net sales of the sample of B.C. processors grew from \$458 million to \$492 million. However, significant fluctuations in sales occurred year to year, as shown below.

|      | <u>Net Sales</u><br><u>\$ Million</u> | <u>Percent</u><br><u>Change</u> | <u>Percent Change</u><br><u>Adjusted For</u><br><u>Sample Changes*</u> |
|------|---------------------------------------|---------------------------------|------------------------------------------------------------------------|
| 1978 | \$458.2                               | -                               | -                                                                      |
| 1979 | 485.3                                 | 5.9%                            | 2.2%                                                                   |
| 1980 | 431.8                                 | (11.0)                          | (11.2)                                                                 |
| 1981 | 549.0                                 | 27.1                            | 27.1                                                                   |
| 1982 | 491.9                                 | (10.4)                          | (10.4)                                                                 |

\* Three companies in the sample did not report any sales for 1978, while two did not for 1979.

Reasons given by the processors for these sales fluctuations are summarized below. These comments relate to sales fluctuations only. Changes in gross margin are discussed later in the report.

- o 1978 sales were at an historic high. This was a good catch year for both salmon and herring. In particular, roe herring markets were excellent.
- o In 1979, herring catches and roe sales continued to be at very high price levels for most of the year. However, the market collapsed in late 1979. Salmon operations were not as satisfactory for some companies, as record high prices were being paid to fishermen which resulted in a squeezing of profit margins, especially on frozen salmon.
- o In 1980, market demand for both salmon and herring declined. Herring roe prices and demand had dropped sharply by late 1979. Salmon sales in pounds rose, but selling prices, particularly for frozen, declined by over 10 percent, in part reflecting the increasing pressure from the lower cost Alaskan producers. A strike also affected the B.C. industry, reducing output.

EXHIBIT 6

SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY

DISTRIBUTION ANALYSIS: GROSS MARGIN

| Gross Margin<br>Range | 1978  |         | 1979  |         | 1980  |         | 1981  |         | 1982  |         |
|-----------------------|-------|---------|-------|---------|-------|---------|-------|---------|-------|---------|
|                       | Count | % Sales | Count | % Sales | Count | % Sales | Count | % Sales | Count | % Sales |
| Above 20%             | 2     | 4.9     | 1     | .1      | 1     | .4      | -     | -       | 2     | 6.7     |
| 15% - 20%             | 9     | 59.1    | 3     | 5.4     | 5     | 11.1    | 3     | 4.9     | 2     | 1.7     |
| 10% - 15%             | 3     | 2.1     | 4     | 47.5    | 6     | 18.6    | 12    | 84.4    | 9     | 65.9    |
| 5% - 10%              | 3     | 33.9    | 6     | 23.0    | 4     | 55.3    | 4     | 9.1     | 6     | 22.0    |
| 0% - 5%               | -     | -       | 3     | 6.2     | 4     | 14.6    | 1     | 1.6     | 1     | 3.7     |
| -5% - 0%              | -     | -       | 2     | 17.8    | -     | -       | -     | -       | -     | -       |
|                       | 17    | 100.0%  | 19    | 100.0%  | 20    | 100.0%  | 20    | 100.0%  | 20    | 100.0%  |

- o In 1981, salmon landings improved and all markets stabilized, though at lower price levels than in 1980. B.C. sales recovered and even improved slightly on 1979 levels, mainly because of increased penetration in the U.K. of canned products.
- o In 1982, the herring roe market continued to improve as it had in 1981, with prices at lower levels than in the late 1970's. However, export markets for canned salmon were adversely affected by a botulism scare in Europe caused by Alaskan product. Some companies indicated that they found themselves with an oversupply of canned salmon. Also, fresh and frozen salmon sales were somewhat weaker for some companies.

#### 4.3.2 Gross Margin

Gross margin ratios show whether the mark-up on cost relative to selling price is sufficient for the processing industry to show a profit. Gross profit in the industry peaked at 14 percent of sales in 1978 but fell sharply in 1979 to 7 percent. 1980 showed a small recovery in gross margin which then rose to a constant level of 12% in 1981 and 1982.

Increased competitive conditions, weaker markets, and higher costs of raw materials and labour were cited by producers as the principal reasons for lower margins in 1979 and 1980. With some stability returning to the market, and some raw material price declines in 1981 and 1982, margins improved on average. However, margins remained at a point which only resulted in a near break even on an overall profitability basis. It should be noted that margins in 1982 were within 2 percent of the high in 1978, but that increases in interest costs had become a major added factor adversely impacting income performance.

Exhibit 6 further illustrates the deterioration in gross margins that has affected the processors since 1979, despite some recovery in 1981 and to a lesser extent in 1982.

In 1978, eleven members of the sample had gross margins in excess of 15%. In 1981, only three had gross margins over 15% and, in 1982, four managed to maintain margins above this level. Overall in 1982, gross margins were below 15% for processors with over 90% of the sampled sales compared to 1978 when processors with over 60% of the sampled sales had gross margins in excess of 15%.

Despite a recovery in gross margins for many in 1981, by 1982 seven companies in the sample had slipped below a 10% gross margin; these companies represented about one-quarter of industry sales.

#### 4.3.3 Selling, General and Administrative Expenses

These expenses rose as a percent of sales in 1982, after relatively stable levels in previous years. It should be noted that the actual expense rose 18 percent in 1982 from 1981, and that inflation was near 12 percent in 1982. A major cause of the increase of S.G. & A. as a percent of sales, which occurred mainly in the more capital-intensive canning part of the industry, was the declining sales dollar in 1982. As a result, sales revenues fell and the overhead of the same plants was now being spread over less sales dollars, but about the same pounds of throughput.

#### 4.3.4 Interest Expenses

Over the 1978 to 1982 period, interest expenses have increased as a percent of sales for both short-term and long-term debt.

Interest expense for short-term debt has remained the larger expense item. Short-term interest costs rose from \$5 million in 1978 to



\$22.7 million in 1981, first to finance expanded operations in 1979, and later to cover increased rates of interest charged on loans. In 1981, short-term interest costs fell to \$17.6 million in total for the sample, but still remained at a high of 4% of sales. The reasons for the growth in short-term debt are several: a significant component of asset growth over the study period consisted of growth in inventory and short-term loans are used to finance inventory growth; smaller companies had more difficulty obtaining long-term debt especially if they held few assets; and, generally, processors whose fixed assets were located on leased Crown land were sometimes unable to easily obtain long-term debt financing and thus reverted to short-term debt with its fluctuating interest rates.

Interest costs on long-term debt grew to \$9.4 million in 1981 from \$2.3 million in 1978, dropping only slightly to \$8.9 million in 1982, as rates of interest declined.

From 1978, interest bearing short-term debt rose from \$60 to \$115 million, a 92% increase while long-term debt rose from \$28 to \$52 million, an 85% increase. The growth of interest expense can be accounted for in part by higher rates, and in part by higher debt levels, as shown below:

|                                                                                 | <u>\$ Millions</u> |
|---------------------------------------------------------------------------------|--------------------|
| Interest, 1978 level                                                            | \$ 7.3             |
| Increase in debt level (90% average over 1978 to 1982)<br>(\$7.3 x 90% = \$6.6) | <u>6.6</u>         |
| Expected interest cost in 1982 at 1978 rates                                    | 13.9               |
| Actual interest cost in 1982                                                    | <u>26.5</u>        |
| Increase due to rates (1982 actual - 1982 expected)                             | <u>\$12.6</u>      |

Between 1978 and 1982, interest rates did just about double. Thus the \$12.6 million increase reflects the additional debt all being financed at new rates, and interest on the opening debt almost all being paid at 1982 rates; for, in 1978, almost no debt was long-term such that it could be insulated against market rate changes in subsequent years.

#### 4.3.5 Non-Recurring Items

Non-recurring items are a somewhat significant addition to the profit of the B.C. industry. This item increased in relative importance in 1979 and 1980. Many of the processors earned income on a regular basis from investments in affiliates or from investment in fishing vessels and such income is included in this category. Also included for some processors are gains made on sale of assets. A breakdown of non-recurring items between these two categories of income is shown below.

| (\$ millions)                                                 | <u>1978</u>  | <u>1979</u>  | <u>1980</u>  | <u>1981</u>  | <u>1982</u>  |
|---------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Income due to recurring causes                                | \$4.0        | \$2.5        | \$1.6        | \$3.7        | \$2.5        |
| Income due to non-recurring causes                            | <u>2.8</u>   | <u>7.2</u>   | <u>7.9</u>   | <u>3.3</u>   | <u>2.3</u>   |
| Total Non-Recurring Item as per Consolidated Income Statement | <u>\$6.8</u> | <u>\$9.7</u> | <u>\$9.5</u> | <u>\$7.0</u> | <u>\$4.8</u> |

Noteworthy in 1979 and 1980 is the significant level of extraordinary income earned from sales of assets. The assets sold include water-based assets, that is, investments in fishing vessels, and land-based assets sold by one group of companies to another as part of a restructuring in the industry.

#### 4.3.6 Net Income

The industry as a whole in B.C. has not been profitable since 1978. Even in 1981, when sales grew and gross margins improved, only a marginal profit of 0.2% of sales was earned. In total, over the period 1979 to 1982, the sampled companies incurred \$9 million in losses.

#### 4.3.7 Total Assets

Total assets in the sample grew from \$255.5 million in 1978 to \$321.2 million in 1982, reflecting steady moderate increases from 1978 to 1981 and a slight decline in 1982. This growth reflects an increase of just over 25% in a four-year period, lower than the growth in the Consumer Price Index in the same period. This indicates that more than half of the increase in asset values most likely represents inflation of values of the same quantity of assets, rather than increases in real assets.

Current assets, with some fluctuations, showed an overall general increase, rising some \$35 million, or about 20 percent in the period. This mainly reflects inflation, as well as the need to hold more unsold canned salmon in 1981 and 1982.

In total, inventory is a significant component of total assets, amounting to \$151 million in 1982. It is noticeable that, in 1982, inventory as a percent of sales rose above levels of the previous three years. In total, over the 1978 to 1982 period, inventory rose by \$23 million. This change in inventory is examined in more detail later in this report under the review of operations.

Fixed assets generally increased, rising from \$62 to \$89 million in the period reviewed. On the whole, producers reduced their investment in fishing vessels from a 1980 peak, such that net fixed water-based assets fell to 7 percent of total assets in 1982.

Net fixed land-based assets (e.g. land, buildings, equipment, etc.) have, however, grown from \$47 million in 1978 to \$65 million in 1982. As such, they represent the second most important component of total assets. The industry indicates that this increase in fixed assets reflects more a restructuring of the industry, and replacement of worn-out equipment rather than addition of increases in capacity.

#### 4.3.8 Current Liabilities

Short-term bank loans account for the major component of current liabilities borne by the B.C. industry and comprise the single most important category of debt assumed by the study sample as shown below:

DEBT FINANCING STRUCTURE OF THE SAMPLE  
BY TYPE OF THIRD-PARTY LENDER, 1982

| Lenders                          | \$ Millions   |               |                | % Distribution |              |              |
|----------------------------------|---------------|---------------|----------------|----------------|--------------|--------------|
|                                  | Short-Term    | Long-Term     | Total          | Short-Term     | Long-Term    | Total        |
| Banks                            | \$84.5        | \$48.0        | \$132.5        | 86 %           | 96 %         | 89 %         |
| Credit Unions<br>or Finance Cos. | 11.0          | 0.4           | 11.4           | 11             | 1            | 8            |
| Significant<br>Customers         | 2.8           | 0.5           | 3.3            | 3              | 1            | 2            |
| Public Debt<br>Issues            | -             | 0.9           | 0.9            | -              | 2            | 1            |
| TOTAL                            | <u>\$98.3</u> | <u>\$49.8</u> | <u>\$148.1</u> | <u>100 %</u>   | <u>100 %</u> | <u>100 %</u> |

Short-term bank debt outstanding at the end of 1982 amounted to \$84.5 million, three times the amount at the end of 1978.

Short-term loans from credit union and other sources have grown marginally over the study period. Short-term loans from significant customers appear to have increased in the most recent last two years, as some companies have sought loans from customers to finance inventories.

Current liabilities have generally declined in significance. Most represent purchases from suppliers who do not have the financial capacity to extend longer terms.

#### **4.3.9 Long-Term Liabilities**

Long-term financing has also come primarily (over 90%) from bank loans, which have tripled since 1978 to \$48 million in 1982.

Noteworthy is the fact that long-term bank loans were reduced slightly by 1981, as some water-based and other assets were sold in the year prior, but increased again in 1982.

#### **4.3.10 Contingent Liabilities**

It should also be noted that processors have certain contingent liabilities. The most significant of these are guarantees of loans from banks and other conventional lenders for vessels owned by fishermen who regularly supply certain processors. At the end of 1982, processor guarantees of fishermen loans amounted to \$6.1 million for the companies in the B.C. sample, excluding one company known to have guarantees but not able to supply this information due to its receivership. This amount in loan guarantees is relatively minor in relationship to overall liabilities.

#### 4.3.11 Equity

Shareholder equity in the B.C. industry has dropped by about 13% over the 1978 to 1979 period. The most significant drops occurred in 1979 and 1982.

For the purposes of many of the analyses in this report, private loans and loans from co-operative members are considered as part of total equity, because in large measure they are non-interest bearing and are close in nature to shareholders loans. Private loans rose over the 1978 to 1980 period, leveled off in 1981 and rose again in 1982. It should be noted that a significant portion of private loans in the B.C. processing sector represent investments of shareholders (members) in co-operative processing organizations.

The table below illustrates the change in the equity financing of the B.C. fish processing sector over the 1978 to 1982 period, by type of equity.

|                                | <u>1978</u>    | <u>1979</u>    | <u>1980</u>    | <u>1981</u>    | <u>1982</u>    |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Private Loans                  | \$31.7         | \$26.5         | \$26.8         | \$27.2         | \$31.3         |
| Shareholders Equity            | <u>100.3</u>   | <u>95.7</u>    | <u>93.8</u>    | <u>92.6</u>    | <u>83.6</u>    |
| Total Equity                   | <u>\$132.0</u> | <u>\$122.0</u> | <u>\$120.6</u> | <u>\$119.8</u> | <u>\$114.9</u> |
| Private Loans<br>as % of Total | 24%            | 22%            | 22%            | 23%            | 27%            |

Over the 1978 to 1982 period, about \$17 million in equity has been lost in the sample of companies reporting in this study. Included is a small drop over the period in private loans, although in 1982 private



loans rose by \$4 million over 1981. In 1982, \$5 million in equity was lost over 1981, all caused by the operating losses of that year. The 1982 drop in equity would have been more severe if private loans had not increased in that year.

For the period 1978 to 1982, the sample has declined from an adequate position of having 50 percent of assets covered by equity (including private loans), to a more exposed position of around 35 percent. Excluding private loans, the equity to assets ratio in 1982 stood only at about 25%.

It should be noted that the industry has wide variations in individual companies' financial conditions. As will be seen later, a number of companies were in the position of having a shareholders deficiency by 1982, and some of these went into receivership in 1983. A breakdown of the sample shows that about 15 percent of all assets are owned by companies with less than 20 percent equity to assets in them, and an overall shareholders deficiency position exists for this group of plants.

On the other hand, almost 25 percent of the assets of the sample were held by companies whose equity exceeded 55 percent of assets. Many of these have maintained relatively favourable financial results over the entire study period and have not experienced any equity deterioration. In-between are those companies with equity to assets of 20% to 55%. This group, with 60% percent of the sample's assets, has experienced a decline in this ratio over the study period, and several companies are currently in a much weaker financial position than they were in 1978.

#### 4.3.12 Conclusions

The B.C. fish processing industry has not grown in actual volume over the last five years. Industry growth is constrained on the resource side by the level of fish stocks, and the demand for herring roe has not returned to 1978 levels. In addition, selling prices have not risen in the last few years and there has been considerable cost pressure on the processors brought on by the primary sector which has greatly increased its capital investment in recent years and demanded higher prices for its catch. The result has been low margins and a lack of profits in the processing sector, commencing in 1979.

Between the 1978 and 1982 year-ends, the industry's assets rose a modest \$66 million, or about 25 percent, a little less than inflation in the period. All the asset growth was financed by debt. The growth of debt levels during the period, and increased interest rates, resulted in the interest paid by the sample companies increasing from \$7 million in 1978 to \$32 million by 1981. This increase in debt is a significant change in the 1978 to 1982 period and a factor contributing to lower profits.

The processing industry has not earned an adequate return on investment since 1978. As would be expected, some companies have been more adversely affected than others. There were 8 processors in our sample each of whom had less than 20 percent of their assets covered by equity. Four of the eight are now in receivership<sup>(2)</sup>, and the remaining four are struggling to a greater or lesser extent. The lack of a favourable year since 1978 is impacting all processors, but especially those with low equity financing.

(2) Millerd Fisheries Ltd., Central Native Fishermen's Co-op, The Cassiar Packing Company Limited and Royal Fisheries Limited.

#### 4.4 INCOME STATEMENT AND BALANCE SHEET ANALYSES BY SELECTED COMPANY GROUPINGS

In conducting the survey of the B.C. fish processing industry, data were collected pertaining to the operating and marketing characteristics of individual processors. These data have been used in this section of the report to group companies according to selected characteristics, in order to assess the financial differences between industry-wide trends and groups of companies operating in similar circumstances.

The following are the groupings of companies, or sub-divisions of data, that are commented upon in this section of the report. In most of the groupings chosen for analysis, relatively meaningful financial differences are evident in comparing one group to another. Although it was apparent, during the course of accumulating the sample statistics, that certain other comparisons would likely also show meaningful comparative trends, data limitations prevented such comparisons from being undertaken.

The comparative analyses commented upon in this section of the report include the following six:

1. A comparison of processors by canning activity:
  - processors who can more than 10% of their product vs.
  - processors who can less than 10% of their product
2. A comparison of processors by the extent to which assets are financed by equity:
  - processors with equity to assets of 20% or less, vs.
  - processors with equity to assets between 20% and 55%, vs.
  - processors with equity to assets of more than 55%
3. A comparison of processors by the level of interest expense:
  - processors with interest payments as a percent of sales of less than 4.0%, vs.

EXHIBIT 7

SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY  
 SELECTED HIGHLIGHTS OF INCOME STATEMENT DATA  
 COMPANIES GROUPED BY CANNING ACTIVITIES  
 (Based on 1982 Canning Activity)

|                                                              |      | More than<br>10% of Product<br>is Canned | Less than<br>10% of Product<br>is Canned | Consolidated |
|--------------------------------------------------------------|------|------------------------------------------|------------------------------------------|--------------|
| <u>Net Sales</u><br>(\$ thousands)                           | 1978 | \$405,807                                | \$52,431                                 | \$458,238    |
|                                                              | 1979 | 425,087                                  | 60,222                                   | 485,309      |
|                                                              | 1980 | 384,734                                  | 47,074                                   | 431,808      |
|                                                              | 1981 | 490,386                                  | 58,596                                   | 548,982      |
|                                                              | 1982 | 412,643                                  | 79,270                                   | 491,913      |
| <u>Net Sales</u><br>(Year-to-Year %<br>increase/decrease)    | 1979 | 3                                        | 15                                       | 6            |
|                                                              | 1980 | (9)                                      | (22)                                     | (11)         |
|                                                              | 1981 | 27                                       | 24                                       | 27           |
|                                                              | 1982 | (16)                                     | 35                                       | (10)         |
| <u>Gross Margin</u><br>(Percentage)                          | 1978 | 14                                       | 14                                       | 14           |
|                                                              | 1979 | 7                                        | 8                                        | 7            |
|                                                              | 1980 | 9                                        | 10                                       | 9            |
|                                                              | 1981 | 12                                       | 11                                       | 12           |
|                                                              | 1982 | 12                                       | 12                                       | 12           |
| <u>Net Income After<br/>Tax as a Percentage<br/>of Sales</u> | 1978 | 5                                        | 3                                        | 4            |
|                                                              | 1979 | 0                                        | (1)                                      | 0            |
|                                                              | 1980 | 0                                        | (2)                                      | 0            |
|                                                              | 1981 | 0                                        | (1)                                      | 0            |
|                                                              | 1982 | (2)                                      | 2                                        | (2)          |
| <u>Interest Payments<br/>as a Percentage<br/>of Sales</u>    | 1978 | 2                                        | 1                                        | 2            |
|                                                              | 1979 | 3                                        | 2                                        | 3            |
|                                                              | 1980 | 5                                        | 3                                        | 5            |
|                                                              | 1981 | 6                                        | 2                                        | 6            |
|                                                              | 1982 | 6                                        | 1                                        | 5            |
| <u>Sales to Inventory<br/>Ratio</u>                          | 1978 | 3                                        | 14                                       | 4            |
|                                                              | 1979 | 4                                        | 8                                        | 4            |
|                                                              | 1980 | 3                                        | 11                                       | 3            |
|                                                              | 1981 | 4                                        | 11                                       | 4            |
|                                                              | 1982 | 3                                        | 10                                       | 3            |
| <u>Participants in<br/>Sample</u>                            | 1982 | 11                                       | 9                                        | 20           |

- processors with interest payments as a percent of sales of more than 4.0%.
- 4. A comparison of processors by location of plants:
  - processors with plants outside the Lower Mainland, vs.
  - processors with plants inside the Lower Mainland
- 5. A comparison of processors by location of markets:
  - processors with 25% or more of their sales to Canada, vs.
  - processors with 30% or more of their sales to Japan, vs.
  - processors with 10% or more of their sales to the United States, vs.
  - processors with 15% or more of their sales to the United Kingdom, vs.
  - processors with 40% or more of their sales to the rest of Europe, vs.
  - processors with a relatively balanced mix of sales to several countries
- 6. A comparison of processors by level of sales:
  - processors with 1982 net sales of \$15 million or less, vs.
  - processors with 1982 net sales of over \$15 million

1982 has been used as the reference year for the above groupings.

For each of the above comparisons, selected income statement and balance sheet information is summarized in the Exhibits included in this section. Included in the Exhibits are also selected financial ratios. Definitions of these ratios are provided in Appendix Two.

#### **4.4.1 Comparison of Processors by Canning Activities**

Exhibits 7 and 8 opposite this page and the next compare financial data for those companies who operate canning facilities (primarily salmon) and those who generally do not. It should be noted that those companies

EXHIBIT 8

SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY  
 SELECTED HIGHLIGHTS OF BALANCE SHEET DATA  
 COMPANIES GROUPED BY CANNING ACTIVITIES  
 (Based on 1982 Canning Activity)

|                                                                           |      | More than<br>10% of Product<br>is Canned | Less than<br>10% of Product<br>is Canned | Consolidated |
|---------------------------------------------------------------------------|------|------------------------------------------|------------------------------------------|--------------|
| <u>Assets</u><br>( \$ thousands)                                          |      |                                          |                                          |              |
|                                                                           | 1978 | \$241,164                                | \$14,293                                 | \$255,457    |
|                                                                           | 1979 | 266,852                                  | 21,035                                   | 287,887      |
|                                                                           | 1980 | 287,468                                  | 16,403                                   | 303,871      |
|                                                                           | 1981 | 302,076                                  | 20,191                                   | 322,267      |
|                                                                           | 1982 | 298,983                                  | 22,169                                   | 321,152      |
| <u>Assets to Sales</u><br>(Percentage)                                    |      |                                          |                                          |              |
|                                                                           | 1978 | 59                                       | 27                                       | 56           |
|                                                                           | 1979 | 63                                       | 35                                       | 59           |
|                                                                           | 1980 | 75                                       | 35                                       | 70           |
|                                                                           | 1981 | 62                                       | 35                                       | 59           |
|                                                                           | 1982 | 73                                       | 28                                       | 65           |
| <u>Current Ratio</u>                                                      |      |                                          |                                          |              |
|                                                                           | 1978 | 2.0                                      | 1.2                                      | 1.9          |
|                                                                           | 1979 | 1.6                                      | 1.1                                      | 1.6          |
|                                                                           | 1980 | 1.6                                      | 1.2                                      | 1.6          |
|                                                                           | 1981 | 1.5                                      | 1.1                                      | 1.5          |
|                                                                           | 1982 | 1.4                                      | 1.1                                      | 1.4          |
| <u>Long Term Debt</u><br><u>to Equity (Incl.</u><br><u>Private Loans)</u> |      |                                          |                                          |              |
|                                                                           | 1978 | 22                                       | 19                                       | 22           |
|                                                                           | 1979 | 27                                       | 30                                       | 27           |
|                                                                           | 1980 | 45                                       | 21                                       | 44           |
|                                                                           | 1981 | 44                                       | 15                                       | 43           |
|                                                                           | 1982 | 46                                       | 38                                       | 46           |
| <u>Fixed Assets to</u><br><u>Equity (Incl.</u><br><u>Private Loans)</u>   |      |                                          |                                          |              |
|                                                                           | 1978 | 47                                       | 45                                       | 47           |
|                                                                           | 1979 | 56                                       | 61                                       | 56           |
|                                                                           | 1980 | 73                                       | 53                                       | 72           |
|                                                                           | 1981 | 76                                       | 54                                       | 75           |
|                                                                           | 1982 | 78                                       | 52                                       | 77           |
| <u>Profit After Tax</u><br><u>on Equity</u>                               |      |                                          |                                          |              |
|                                                                           | 1978 | 14                                       | 32                                       | 15           |
|                                                                           | 1979 | 0                                        | (16)                                     | (1)          |
|                                                                           | 1980 | 0                                        | (13)                                     | (1)          |
|                                                                           | 1981 | 2                                        | (9)                                      | 1            |
|                                                                           | 1982 | (9)                                      | 21                                       | (7)          |
| <u>Income (before</u><br><u>interest and taxes)</u><br><u>to Assets</u>   |      |                                          |                                          |              |
|                                                                           | 1978 | 15                                       | 17                                       | 15           |
|                                                                           | 1979 | 3                                        | 1                                        | 3            |
|                                                                           | 1980 | 4                                        | 5                                        | 4            |
|                                                                           | 1981 | 10                                       | 5                                        | 10           |
|                                                                           | 1982 | 5                                        | 13                                       | 5            |
| <u>Participants in</u><br><u>Sample</u>                                   |      |                                          |                                          |              |
|                                                                           | 1982 | 11                                       | 9                                        | 20           |



in the "canning" group are not, for the most part, exclusively canners but produce other products as well.

Although not all companies provided detailed data on production or sales by type of product, sufficient data were available on questionnaire responses to determine into which category each respondent should be classified. In a few instances, follow-up calls were made to verify the extent or lack of canning activities. As a result, all processors in the sample were categorized, based primarily on 1982 activity.

Observations on the Exhibits include:

- Companies with canning operations are the larger sector of the industry. Total sales for these companies accounted for 84% of total sample sales in 1982.
- Gross margins in both sectors appear to be similar.
- Since 1979, non-canners generally experienced losses, with the exception of 1982 when profits were earned in comparison to losses for the canners.
- Early in 1982, a botulism poisoning scare in Europe caused by Alaskan product, adversely affected the demand for canned salmon products packed in 1981, particularly in the U.K., leaving processors with large inventories. This event also had a significant impact on demand for 1982 production.
- Even apart from 1982, canners have generally had relatively high inventory levels, when compared to sales volume. This is in part the result of canners intentionally holding product for off-season sales or to obtain better prices at a later date (especially in low pack years) and also to supply brands to the market over a 12-month period.

- Canners are more highly levered: asset to equity and asset to sales ratios are higher and interest payments as a percent of sales are higher, particularly in the 1980 to 1982 period.
- Canning is a more capital-intensive activity; thus canning plants have higher interest as a percentage of sales and more assets per sales dollar.
- The lower capital requirements of frozen products make this an easier product line in which to enter the industry, but also the one which, in the longer term, will likely be less profitable. This is illustrated by the income to assets ratio calculated after removing the effects of interest and tax payments: except for 1982, when markets for canned products deteriorated, the ratio for non-canners has never greatly surpassed that for canners and in some years has been lower.

In general it appears that, with the exception of 1982 when canners' sales volumes fell, companies with canning facilities were able to at least break-even in recent years, whereas non-canners experienced losses. While gross margins were similar for both groups, canners benefited from additional income (under non-recurring items) and their selling and administrative expenses were proportionately slightly lower than those of non-canners. Most canners also had the flexibility to better utilize the salmon resource by switching to more or less canned product as market demand changed. Profitability in the canner group could also have been improved considerably if the debt burden borne by these companies were lower.

## EXHIBIT 9

SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY  
 SELECTED HIGHLIGHTS OF INCOME STATEMENT DATA  
 COMPANIES GROUPED BY EQUITY TO ASSETS RATIO  
 (Based on 1982 Data)

|                                                              |      | <u>Under 20%</u> | <u>20% - 55%</u> | <u>Over 55%</u> | <u>Consolidated</u> |
|--------------------------------------------------------------|------|------------------|------------------|-----------------|---------------------|
| <u>Net Sales</u><br>(\$ thousands)                           | 1978 | \$60,927         | \$241,356        | \$155,955       | \$458,238           |
|                                                              | 1979 | 89,819           | 249,159          | 146,331         | 485,309             |
|                                                              | 1980 | 78,651           | 245,440          | 107,717         | 431,808             |
|                                                              | 1981 | 111,288          | 321,965          | 115,729         | 548,982             |
|                                                              | 1982 | 92,739           | 289,531          | 109,643         | 491,913             |
| <u>Net Sales</u><br>(Year-to-Year %<br>increase/decrease)    | 1979 | 47               | 3                | (6)             | 6                   |
|                                                              | 1980 | (12)             | (2)              | (26)            | (11)                |
|                                                              | 1981 | 41               | 31               | 7               | 27                  |
|                                                              | 1982 | (17)             | (10)             | (5)             | (10)                |
| <u>Gross Margin</u><br>(Percentage)                          | 1978 | 15               | 17               | 9               | 14                  |
|                                                              | 1979 | 7                | 11               | 1               | 7                   |
|                                                              | 1980 | 10               | 9                | 9               | 9                   |
|                                                              | 1981 | 10               | 12               | 13              | 12                  |
|                                                              | 1982 | 10               | 13               | 13              | 12                  |
| <u>Net Income After<br/>Tax as a Percentage<br/>of Sales</u> | 1978 | 4                | 6                | 2               | 4                   |
|                                                              | 1979 | (3)              | 2                | (3)             | 0                   |
|                                                              | 1980 | (3)              | 0                | 1               | 0                   |
|                                                              | 1981 | (3)              | 1                | 3               | 0                   |
|                                                              | 1982 | (5)              | (2)              | 1               | (2)                 |
| <u>Interest Payments<br/>as a Percentage<br/>of Sales</u>    | 1978 | 2                | 2                | 2               | 2                   |
|                                                              | 1979 | 3                | 3                | 2               | 3                   |
|                                                              | 1980 | 5                | 5                | 4               | 5                   |
|                                                              | 1981 | 5                | 6                | 5               | 6                   |
|                                                              | 1982 | 6                | 6                | 3               | 5                   |
| <u>Sales to Inventory<br/>Ratio</u>                          | 1978 | 7                | 4                | 3               | 4                   |
|                                                              | 1979 | 7                | 3                | 4               | 4                   |
|                                                              | 1980 | 6                | 3                | 3               | 3                   |
|                                                              | 1981 | 8                | 4                | 3               | 4                   |
|                                                              | 1982 | 5                | 3                | 2               | 3                   |
| <u>Participants in<br/>Sample</u>                            | 1982 | 8                | 6                | 6               | 20                  |

**4.4.2 Comparison of Processors by the Extent to which Assets are Financed by Equity**

Exhibits 9 and 10 opposite this page and the next compare financial data for those companies who have low, high and intermediate ratios of equity to assets.

Observations on the Exhibits include:

- No consistent pattern of differences in sales performance or gross margin emerges among these three groupings, although the under 20% group had a 2-3 percent lower margin in 1981 and 1982.
- Those companies with equity to assets of under 20% experienced losses over most of the period; those with equity to assets of over 55% had the best profit performance of all three groupings over the 1980 to 1982 period; the intermediate group has generally broken even at best in recent years. The impact of interest payments (1 to 3 percent) was far less than the difference in after-tax income (4 to 6 percent) among the best and worst performing groups.
- Although less profitable, the companies with equity to assets of under 20% had higher sales to inventory ratios than the other two groups, indicating that they likely produced a product mix with a quicker turnover; and assets to sales ratios were lower for this group than for the other two, indicating a less capital-intensive operation. These ratios also indicate the need to sell inventory quickly to generate funds to repay financing or, more generally, an inability to hold inventories for longer periods, which those with more financial capacity are able to do.

## EXHIBIT 10

SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY  
 SELECTED HIGHLIGHTS OF BALANCE SHEET DATA  
 COMPANIES GROUPED BY EQUITY TO ASSETS RATIO  
 (Based on 1982 Data)

|                                                                           |      | <u>Under 20%</u> | <u>20% - 55%</u> | <u>Over 55%</u> | <u>Consolidated</u> |
|---------------------------------------------------------------------------|------|------------------|------------------|-----------------|---------------------|
| <u>Assets</u><br>((\$ thousands)                                          | 1978 | \$28,999         | \$124,566        | \$101,892       | \$255,457           |
|                                                                           | 1979 | 45,154           | 147,745          | 94,988          | 287,887             |
|                                                                           | 1980 | 42,942           | 185,058          | 75,871          | 303,871             |
|                                                                           | 1981 | 48,586           | 195,964          | 77,717          | 322,267             |
|                                                                           | 1982 | 49,461           | 193,118          | 78,573          | 321,152             |
| <u>Assets to Sales</u><br>(Percentage)                                    | 1978 | 48               | 52               | 65              | 56                  |
|                                                                           | 1979 | 50               | 59               | 65              | 59                  |
|                                                                           | 1980 | 55               | 75               | 70              | 70                  |
|                                                                           | 1981 | 44               | 61               | 67              | 59                  |
|                                                                           | 1982 | 53               | 67               | 72              | 65                  |
| <u>Current Ratio</u>                                                      | 1978 | 1.4              | 2.0              | 2.1             | 1.9                 |
|                                                                           | 1979 | 1.0              | 1.7              | 1.8             | 1.6                 |
|                                                                           | 1980 | 1.1              | 1.6              | 1.9             | 1.6                 |
|                                                                           | 1981 | 0.9              | 1.5              | 1.9             | 1.5                 |
|                                                                           | 1982 | 0.9              | 1.4              | 2.0             | 1.4                 |
| <u>Long Term Debt</u><br><u>to Equity (Incl.</u><br><u>Private Loans)</u> | 1978 | 52               | 25               | 12              | 22                  |
|                                                                           | 1979 | 89               | 28               | 13              | 27                  |
|                                                                           | 1980 | 150              | 59               | 3               | 44                  |
|                                                                           | 1981 | 310              | 55               | 3               | 43                  |
|                                                                           | 1982 | (*)              | 57               | 2               | 46                  |
| <u>Fixed Assets to</u><br><u>Equity (Incl.</u><br><u>Private Loans)</u>   | 1978 | 88               | 46               | 42              | 47                  |
|                                                                           | 1979 | 159              | 57               | 34              | 56                  |
|                                                                           | 1980 | 182              | 84               | 34              | 72                  |
|                                                                           | 1981 | 354              | 86               | 35              | 75                  |
|                                                                           | 1982 | (*)              | 94               | 30              | 77                  |
| <u>Profit After Tax</u><br><u>on Equity</u>                               | 1978 | 22               | 24               | 4               | 15                  |
|                                                                           | 1979 | (23)             | 8                | (8)             | (1)                 |
|                                                                           | 1980 | (27)             | 0                | 3               | (1)                 |
|                                                                           | 1981 | (102)            | 2                | 7               | 1                   |
|                                                                           | 1982 | (*)              | (7)              | 1               | (7)                 |
| <u>Income (before</u><br><u>Interest and taxes)</u><br><u>to Assets</u>   | 1978 | 16               | 22               | 6               | 15                  |
|                                                                           | 1979 | (1)              | 8                | (3)             | 3                   |
|                                                                           | 1980 | 3                | 3                | 8               | 4                   |
|                                                                           | 1981 | 4                | 10               | 14              | 10                  |
|                                                                           | 1982 | 2                | 6                | 6               | 5                   |
| <u>Participants in</u><br><u>Sample</u>                                   | 1982 | 8                | 6                | 6               | 20                  |

(\*) Indicates a shareholders deficiency

- As expected, long-term debt to equity was extremely high for those with equity to assets under 20%; however, interest payments as a percent of sales did not vary significantly between the first two groups as would be expected. The cause is lower short-term interest expenses for the under 20 percent group as they sold inventories more rapidly than the other two groups. The under 20 percent group had the highest percent of long-term interest to sales in 1982.
- Removing the effects of interest and tax payments, earnings to asset ratios for the under 20% equity to assets group have been consistently poorer than for the other two groups, pointing again to the inability of these companies to generate adequate profits, or to be able to take maximum advantage of markets by holding inventories longer.
- The group with equity to assets of over 55% has had relatively little long-term debt in recent years, with a correspondingly lower proportion of interest payments, especially on long-term debt, and resulting better profit performance.
- The intermediate group, with equity to assets of between 20% to 55%, has seen a deterioration in this ratio from around 50% to under 35% over the study period. Profit performance for this group has also been poor in recent years. Although this group is still on average relatively financially stable, it cannot absorb any further significant financial set-backs.

The above comparisons clearly illustrate that the B.C. fish processing industry is made up of companies in several very different categories of financial circumstances. Those with the least debt burden



EXHIBIT 11

SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY  
SELECTED HIGHLIGHTS OF INCOME STATEMENT DATA  
COMPANIES GROUPED BY LEVEL OF INTEREST EXPENSE  
(Based on 1982 Interest Expense)

|                                                              |      | Interest<br>Less than<br>4% of Sales | Interest<br>More than<br>4% of Sales | Consolidated |
|--------------------------------------------------------------|------|--------------------------------------|--------------------------------------|--------------|
| <u>Net Sales</u><br>(\$ thousands)                           | 1978 | \$162,666                            | \$295,572                            | \$458,238    |
|                                                              | 1979 | 154,008                              | 331,301                              | 485,309      |
|                                                              | 1980 | 115,248                              | 316,560                              | 431,808      |
|                                                              | 1981 | 135,056                              | 413,926                              | 548,982      |
|                                                              | 1982 | 152,350                              | 339,563                              | 491,913      |
|                                                              |      |                                      |                                      |              |
| <u>Net Sales</u><br>(Year-to-Year %<br>increase/decrease)    | 1979 | (5)                                  | 12                                   | 6            |
|                                                              | 1980 | (25)                                 | (4)                                  | (11)         |
|                                                              | 1981 | 17                                   | 31                                   | 27           |
|                                                              | 1982 | 13                                   | (18)                                 | 10           |
|                                                              |      |                                      |                                      |              |
| <u>Gross Margin</u><br>(Percentage)                          | 1978 | 11                                   | 16                                   | 14           |
|                                                              | 1979 | 3                                    | 9                                    | 7            |
|                                                              | 1980 | 10                                   | 9                                    | 9            |
|                                                              | 1981 | 12                                   | 12                                   | 12           |
|                                                              | 1982 | 13                                   | 12                                   | 12           |
|                                                              |      |                                      |                                      |              |
| <u>Net Income After<br/>Tax as a Percentage<br/>of Sales</u> | 1978 | 3                                    | 5                                    | 4            |
|                                                              | 1979 | (2)                                  | 1                                    | 0            |
|                                                              | 1980 | 1                                    | (1)                                  | 0            |
|                                                              | 1981 | 2                                    | (1)                                  | 0            |
|                                                              | 1982 | 1                                    | (3)                                  | 2            |
|                                                              |      |                                      |                                      |              |
| <u>Interest Payments<br/>as a Percentage<br/>of Sales</u>    | 1978 | 1                                    | 2                                    | 2            |
|                                                              | 1979 | 2                                    | 3                                    | 3            |
|                                                              | 1980 | 3                                    | 6                                    | 5            |
|                                                              | 1981 | 3                                    | 7                                    | 6            |
|                                                              | 1982 | 2                                    | 7                                    | 5            |
|                                                              |      |                                      |                                      |              |
| <u>Sales to Inventory<br/>Ratio</u>                          | 1978 | 5                                    | 3                                    | 4            |
|                                                              | 1979 | 8                                    | 3                                    | 4            |
|                                                              | 1980 | 6                                    | 3                                    | 3            |
|                                                              | 1981 | 5                                    | 4                                    | 4            |
|                                                              | 1982 | 5                                    | 3                                    | 3            |
|                                                              |      |                                      |                                      |              |
| <u>Participants in<br/>Sample</u>                            | 1982 | 11                                   | 9                                    | 20           |

relative to equity are moderately profitable; these companies hold around 25 percent of the industry's assets. Certain of the companies, with about 15 percent of the sample assets, appear to have been unable to earn sufficient profits or attract an added equity infusion to prevent their equity base from deteriorating. Instead they turned heavily to debt financing. Some (4) of these are presently in receivership. The intermediate group appears to be coping with higher interest costs which have explained about half the reduction of profitability in recent years, but the group's financial condition is weakened. This intermediate group accounts for about 60 percent of the assets of the sampled processors.

#### 4.4.3 Comparison of Processors by Level of Interest Expense

Exhibits 11 and 12 opposite this page and the next compare financial data for those companies who have differing levels of interest expense. This comparison complements the comparison discussed in 4.4.2 above. The division of plants into the two samples was based on interest costs incurred in 1982. A plant was left in the same group over the five year period.

Observations on the Exhibits include:

- No year to year consistent pattern of differences in sales performance or gross margins emerges among the two groups compared, but over the full five year period it is clear that those with lower interest costs are also the growth sector.
- Since 1980, the group with interest payments at more than 4% of sales has experienced losses and negative return on equity.

EXHIBIT 12

SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY  
SELECTED HIGHLIGHTS OF BALANCE SHEET DATA  
COMPANIES GROUPED BY LEVEL OF INTEREST EXPENSE  
(Based on 1982 Interest Expense)

|                                                                         |      | Interest Less<br>than 4%<br>of Sales | Interest More<br>than 4%<br>of Sales | Consolidated |
|-------------------------------------------------------------------------|------|--------------------------------------|--------------------------------------|--------------|
| <u>Assets</u><br>(\$ thousands)                                         | 1978 | \$77,690                             | \$177,767                            | \$255,457    |
|                                                                         | 1979 | 75,292                               | 212,595                              | 287,887      |
|                                                                         | 1980 | 61,388                               | 242,483                              | 303,871      |
|                                                                         | 1981 | 65,823                               | 256,444                              | 322,267      |
|                                                                         | 1982 | 69,640                               | 251,512                              | 321,152      |
| <u>Assets to Sales</u><br>(Percentage)                                  | 1978 | 48                                   | 60                                   | 56           |
|                                                                         | 1979 | 49                                   | 64                                   | 59           |
|                                                                         | 1980 | 53                                   | 77                                   | 70           |
|                                                                         | 1981 | 49                                   | 62                                   | 59           |
|                                                                         | 1982 | 46                                   | 74                                   | 65           |
| <u>Current Ratio</u>                                                    | 1978 | 1.5                                  | 2.2                                  | 1.9          |
|                                                                         | 1979 | 1.4                                  | 1.6                                  | 1.6          |
|                                                                         | 1980 | 1.7                                  | 1.6                                  | 1.6          |
|                                                                         | 1981 | 1.8                                  | 1.4                                  | 1.5          |
|                                                                         | 1982 | 1.8                                  | 1.3                                  | 1.4          |
| <u>Long Term Debt</u><br><u>to Equity</u> (Incl.<br>Private Loans)      | 1978 | 25                                   | 21                                   | 22           |
|                                                                         | 1979 | 35                                   | 25                                   | 27           |
|                                                                         | 1980 | 21                                   | 52                                   | 44           |
|                                                                         | 1981 | 19                                   | 52                                   | 43           |
|                                                                         | 1982 | 22                                   | 56                                   | 46           |
| <u>Fixed Assets to</u><br><u>Equity</u> (Incl.<br>Private Loans)        | 1978 | 58                                   | 44                                   | 47           |
|                                                                         | 1979 | 49                                   | 59                                   | 56           |
|                                                                         | 1980 | 49                                   | 80                                   | 72           |
|                                                                         | 1981 | 43                                   | 87                                   | 75           |
|                                                                         | 1982 | 41                                   | 93                                   | 77           |
| <u>Profit After Tax</u><br><u>on Equity</u>                             | 1978 | 15                                   | 15                                   | 15           |
|                                                                         | 1979 | (13)                                 | 2                                    | (1)          |
|                                                                         | 1980 | 3                                    | (2)                                  | (1)          |
|                                                                         | 1981 | 9                                    | (3)                                  | 1            |
|                                                                         | 1982 | 6                                    | (13)                                 | (7)          |
| <u>Income (before</u><br><u>interest and taxes)</u><br><u>to Assets</u> | 1978 | 13                                   | 16                                   | 15           |
|                                                                         | 1979 | (4)                                  | 5                                    | 3            |
|                                                                         | 1980 | 7                                    | 4                                    | 4            |
|                                                                         | 1981 | 13                                   | 9                                    | 10           |
|                                                                         | 1982 | 9                                    | 4                                    | 5            |
| <u>Participants in</u><br><u>Sample</u>                                 | 1982 | 11                                   | 9                                    | 20           |

- As would be expected, long-term debt for those companies with interest payments over 4% of sales has been relatively high as a proportion of equity and the ratio of current assets to current liabilities has in recent years been lower than for the first group of companies.
- Generally, debt to equity and fixed asset to equity ratios have been deteriorating for companies with interest over 4% of sales. As shown earlier, several companies have experienced decreasing equity which has contributed to poorer ratios based on equity.
- Noteworthy is the fact that companies with interest payments less than 4% of sales represent only 22% of the sample based on value of assets but 31% of the sample based on value of sales.

Overall this comparison supports the earlier analysis indicating that interest rate expense is a significant contributor to the industry's general lack of profitability in recent years.

#### 4.4.4 Comparison of Processors by Location of Plants

Exhibits 13 and 14 opposite the next two pages compare financial data for those companies with plants located in the Lower Mainland and those with plants outside the Lower Mainland.

Because not all responding companies were able to break down their financial results by plant, the grouping of companies with plants in the Lower Mainland also includes results for plants in other areas which were consolidated into overall company data in the data bank. In addition, it should be noted that several of the processors outside the Lower Mainland

EXHIBIT 13

SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY  
SELECTED HIGHLIGHTS OF INCOME STATEMENT DATA  
COMPANIES GROUPED BY LOCATION

|                                                              |      | <u>Plants Outside<br/>Lower Mainland</u> | <u>Plants Inside<br/>Lower Mainland</u> | <u>Consolidated</u> |
|--------------------------------------------------------------|------|------------------------------------------|-----------------------------------------|---------------------|
| <u>Net Sales</u><br>(\$ thousands)                           | 1978 | \$66,539                                 | \$391,699                               | \$458,238           |
|                                                              | 1979 | 75,338                                   | 409,972                                 | 485,309             |
|                                                              | 1980 | 80,161                                   | 351,647                                 | 431,808             |
|                                                              | 1981 | 83,943                                   | 465,039                                 | 548,982             |
|                                                              | 1982 | 87,308                                   | 404,605                                 | 491,913             |
| <u>Net Sales</u><br>(Year-to-Year %<br>increase/decrease)    | 1979 | 13                                       | 5                                       | 6                   |
|                                                              | 1980 | 6                                        | (14)                                    | (11)                |
|                                                              | 1981 | 5                                        | 32                                      | 27                  |
|                                                              | 1982 | 4                                        | (15)                                    | (10)                |
| <u>Gross Margin</u><br>(Percentage)                          | 1978 | 11                                       | 15                                      | 14                  |
|                                                              | 1979 | 7                                        | 7                                       | 7                   |
|                                                              | 1980 | 12                                       | 8                                       | 9                   |
|                                                              | 1981 | 13                                       | 12                                      | 12                  |
|                                                              | 1982 | 14                                       | 12                                      | 12                  |
| <u>Net Income After<br/>Tax as a Percentage<br/>of Sales</u> | 1978 | 2                                        | 5                                       | 4                   |
|                                                              | 1979 | (2)                                      | 0                                       | 0                   |
|                                                              | 1980 | (1)                                      | 0                                       | 0                   |
|                                                              | 1981 | (2)                                      | 1                                       | 0                   |
|                                                              | 1982 | (1)                                      | (2)                                     | (2)                 |
| <u>Interest Payments<br/>as a Percentage<br/>of Sales</u>    | 1978 | 2                                        | 2                                       | 2                   |
|                                                              | 1979 | 4                                        | 3                                       | 3                   |
|                                                              | 1980 | 6                                        | 5                                       | 5                   |
|                                                              | 1981 | 7                                        | 6                                       | 6                   |
|                                                              | 1982 | 5                                        | 6                                       | 5                   |
| <u>Sales to Inventory<br/>Ratio</u>                          | 1978 | 3                                        | 14                                      | 4                   |
|                                                              | 1979 | 4                                        | 8                                       | 4                   |
|                                                              | 1980 | 3                                        | 11                                      | 3                   |
|                                                              | 1981 | 4                                        | 11                                      | 4                   |
|                                                              | 1982 | 3                                        | 10                                      | 3                   |
| <u>Participants in<br/>Sample</u>                            | 1982 | 6                                        | 14                                      | 20                  |

operate as co-operative organizations and, as such, attempt to operate at a break-even level.

Bearing in mind the above limitations, observations on the Exhibits include:

- Plants outside the Lower Mainland appear to have had consistent but low sales increases in recent years and slightly improving gross margins. Those in the Lower Mainland have experienced more fluctuation in sales.
- Gross margins have been slightly higher for the group outside the Lower Mainland. A detailed analysis of costs of production indicate that plant labour costs, rather than raw material costs, accounted for much of the difference in gross margins in 1982.
- Plants outside the Lower Mainland have been generally unprofitable since 1980 and particularly in 1981 which was a slightly better year for the remainder of the industry. However, when the effects of interest and taxes are removed from income, the return on assets is similar for both groups in 1982, indicating that the plants inside the Lower Mainland were more affected than those outside by the 1982 drop in demand for canned products.
- Sales to inventory ratios for the plants outside the Lower Mainland have been below average and interest payments as a percent of sales have been high, but only slightly more so than for the other plants in the sample.
- Assets to sales ratios have been higher for plants outside the Lower Mainland; however, debt to equity and fixed asset to equity ratios have been lower, given that private loans



EXHIBIT 14

SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY  
SELECTED HIGHLIGHTS OF BALANCE SHEET DATA  
COMPANIES GROUPED BY LOCATION

|                                                                         |      | Plants Out-<br>side Lower<br>Mainland | Plants In-<br>side Lower<br>Mainland | Consolidated |
|-------------------------------------------------------------------------|------|---------------------------------------|--------------------------------------|--------------|
| <u>Assets</u><br>(\$ thousands)                                         | 1978 | \$56,230                              | \$199,227                            | \$255,457    |
|                                                                         | 1979 | 62,733                                | 225,153                              | 287,887      |
|                                                                         | 1980 | 60,588                                | 243,283                              | 303,871      |
|                                                                         | 1981 | 59,756                                | 262,511                              | 322,267      |
|                                                                         | 1982 | 60,666                                | 260,486                              | 321,152      |
| <u>Assets to Sales</u><br>(Percentage)                                  | 1978 | 85                                    | 51                                   | 56           |
|                                                                         | 1979 | 83                                    | 55                                   | 59           |
|                                                                         | 1980 | 76                                    | 69                                   | 70           |
|                                                                         | 1981 | 71                                    | 56                                   | 59           |
|                                                                         | 1982 | 70                                    | 64                                   | 65           |
| <u>Current Ratio</u>                                                    | 1978 | 2.8                                   | 1.8                                  | 1.9          |
|                                                                         | 1979 | 1.7                                   | 1.5                                  | 1.6          |
|                                                                         | 1980 | 1.5                                   | 1.6                                  | 1.6          |
|                                                                         | 1981 | 2.3                                   | 1.5                                  | 1.5          |
|                                                                         | 1982 | 1.6                                   | 1.4                                  | 1.4          |
| <u>Long-Term Debt</u><br><u>to Equity</u> (Incl.<br>Private Loans)      | 1978 | 10                                    | 26                                   | 22           |
|                                                                         | 1979 | 18                                    | 31                                   | 27           |
|                                                                         | 1980 | 20                                    | 51                                   | 44           |
|                                                                         | 1981 | 18                                    | 49                                   | 43           |
|                                                                         | 1982 | 20                                    | 55                                   | 46           |
| <u>Fixed Assets to</u><br><u>Equity</u> (Incl.<br>Private Loans)        | 1978 | 36                                    | 52                                   | 47           |
|                                                                         | 1979 | 52                                    | 58                                   | 56           |
|                                                                         | 1980 | 55                                    | 77                                   | 72           |
|                                                                         | 1981 | 62                                    | 78                                   | 75           |
|                                                                         | 1982 | 50                                    | 86                                   | 77           |
| <u>Profit After Tax</u><br><u>on Equity</u>                             | 1978 | 4                                     | 20                                   | 15           |
|                                                                         | 1979 | (4)                                   | 0                                    | (1)          |
|                                                                         | 1980 | (3)                                   | 0                                    | (1)          |
|                                                                         | 1981 | (8)                                   | 3                                    | 1            |
|                                                                         | 1982 | (2)                                   | (9)                                  | (7)          |
| <u>Income (before</u><br><u>Interest and taxes)</u><br><u>to Assets</u> | 1978 | 6                                     | 18                                   | 15           |
|                                                                         | 1979 | 1                                     | 4                                    | 3            |
|                                                                         | 1980 | 6                                     | 4                                    | 4            |
|                                                                         | 1981 | 6                                     | 11                                   | 10           |
|                                                                         | 1982 | 6                                     | 5                                    | 5            |
| <u>Participants in</u><br><u>Sample</u>                                 | 1982 | 6                                     | 14                                   | 20           |

which are included in equity have been a significant component of financing for this group, as explained below.

- The balance sheets of the outside Lower Mainland group show less than \$5 million in shareholders' equity to support \$60 million in assets in 1982. These companies have little long-term third-party debt, about \$5 million. Rather they rely on private loans and loans from customers or co-op members (totalling \$24 million in 1982), for financial support.

The plants outside the Lower Mainland are generally better financed by equity, including private loans than those in the Lower Mainland. This support is not fully interest bearing. As a result, interest payments have not affected profits of these firms any more heavily than firms in the other group. The relative lack of additional income from affiliates or from "captive" fishermen, and slightly higher selling and administrative expenses per sales dollar appear to have been the main differences between this group and the remainder of the sample, causing slightly less favourable income performance.

#### **4.4.5 Comparison of Processors by Location of Markets**

Exhibits 15 and 16 opposite the next two pages compare financial data for those companies selling to different markets.

Because, in some instances, the percent of sales destined for certain of the markets examined is relatively low in relation to overall company sales, certain of the comparisons have not been discussed below as

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SELECTED HIGHLIGHTS OF INCOME STATEMENT DATA  
COMPANIES GROUPED BY LOCATION OF MARKETS AS AT 1982

|                                                              | Over<br>25% of Sales<br>To Canada | Over<br>30% of Sales<br>To Japan | Over<br>10% of Sales<br>To U.S. | Over<br>15% of Sales<br>To U.K. | Over 40% of<br>Sales to Rest<br>of Europe | Balanced<br>Mix of Sales<br>by Country | Consolidated |
|--------------------------------------------------------------|-----------------------------------|----------------------------------|---------------------------------|---------------------------------|-------------------------------------------|----------------------------------------|--------------|
| <u>Net Sales</u><br>(\$ thousands)                           |                                   |                                  |                                 |                                 |                                           |                                        |              |
| 1978                                                         | \$344,675                         | \$107,057                        | \$ 74,447                       | \$45,856                        | \$31,953                                  | \$86,729                               | \$458,238    |
| 1979                                                         | 339,251                           | 124,356                          | 85,428                          | 61,498                          | 39,534                                    | 97,945                                 | 485,309      |
| 1980                                                         | 294,403                           | 124,753                          | 89,727                          | 62,476                          | 31,094                                    | 112,000                                | 431,808      |
| 1981                                                         | 372,234                           | 159,399                          | 100,080                         | 87,263                          | 36,174                                    | 125,000                                | 548,982      |
| 1982                                                         | 308,882                           | 160,692                          | 111,915                         | 65,811                          | 44,563                                    | 128,579                                | 491,913      |
| <u>Net Sales</u><br>(Year-to-Year %<br>increase/decrease)    |                                   |                                  |                                 |                                 |                                           |                                        |              |
| 1979                                                         | (2)                               | 16                               | 15                              | 34                              | 24                                        | 13                                     | 6            |
| 1980                                                         | (13)                              | 0                                | 5                               | 2                               | (21)                                      | 14                                     | (11)         |
| 1981                                                         | 26                                | 28                               | 12                              | 40                              | 16                                        | 12                                     | 27           |
| 1982                                                         | (18)                              | 1                                | 12                              | (25)                            | 24                                        | 3                                      | (10)         |
| <u>Gross Margin</u><br>(Percentage)                          |                                   |                                  |                                 |                                 |                                           |                                        |              |
| 1978                                                         | 15                                | 14                               | 9                               | 18                              | 11                                        | 13                                     | 14           |
| 1979                                                         | 7                                 | 8                                | 9                               | 6                               | 8                                         | 8                                      | 7            |
| 1980                                                         | 8                                 | 12                               | 13                              | 12                              | 8                                         | 14                                     | 9            |
| 1981                                                         | 12                                | 12                               | 14                              | 10                              | 10                                        | 14                                     | 12           |
| 1982                                                         | 12                                | 12                               | 16                              | 8                               | 11                                        | 15                                     | 12           |
| <u>Net Income After<br/>Tax as a Percentage<br/>of Sales</u> |                                   |                                  |                                 |                                 |                                           |                                        |              |
| 1978                                                         | 5                                 | 4                                | 3                               | 7                               | 2                                         | 5                                      | 4            |
| 1979                                                         | 1                                 | (2)                              | 1                               | (3)                             | 0                                         | 0                                      | 0            |
| 1980                                                         | 1                                 | (1)                              | 1                               | 0                               | (1)                                       | 1                                      | 0            |
| 1981                                                         | 1                                 | (2)                              | 1                               | (3)                             | 0                                         | 0                                      | 0            |
| 1982                                                         | (3)                               | (2)                              | 1                               | (6)                             | 2                                         | 1                                      | (2)          |
| <u>Interest Payments<br/>as a Percentage<br/>of Sales</u>    |                                   |                                  |                                 |                                 |                                           |                                        |              |
| 1978                                                         | 2                                 | 2                                | 1                               | 2                               | 1                                         | 2                                      | 2            |
| 1979                                                         | 3                                 | 3                                | 2                               | 3                               | 2                                         | 3                                      | 3            |
| 1980                                                         | 5                                 | 5                                | 4                               | 5                               | 2                                         | 5                                      | 5            |
| 1981                                                         | 6                                 | 6                                | 6                               | 7                               | 2                                         | 7                                      | 6            |
| 1982                                                         | 6                                 | 5                                | 3                               | 8                               | 2                                         | 4                                      | 5            |
| <u>Participants in<br/>Sample</u>                            |                                   |                                  |                                 |                                 |                                           |                                        |              |
| 1982                                                         | 8                                 | 10                               | 4                               | 5                               | 4                                         | 6                                      | 20           |

they appeared not significant for some of the companies. It should also be noted that the groupings used in this comparison are not mutually exclusive - a company may be included in more than one category.

Observations on the Exhibits include:

- Basically all the groups exhibit variable sales performance year to year with perhaps the group of companies with a balanced mix of sales being most consistent in experiencing sales growth over the period (with the exception of 1982) and those with Canada as a major market showing the most sluggish results.
- It is interesting to note that, in 1979, all groups experienced sales growth, except the group most dependent on sales to Canada; in 1980, all groups experienced poor sales growth or decline with the exception of the group with a balanced mix of sales by country; in 1981, all groups increased their sales with the strongest performer being the group selling to the U.K.; and in 1982, considerable variability in sales growth by group is evident, with the most positive performance being shown by the group most dependent on sales to the rest of Europe (generally frozen and other salmon products).
- Gross margins appear to show a relatively consistent pattern across all groups in the various years with a few exceptions. Noteworthy is the poor gross margin (8%) achieved in 1982 by processors dependent on sales to the United Kingdom. In addition, the sales to inventory ratio for this group fell significantly in 1982 from relatively favourable levels in previous years. 1981 was the year the the U.K. market for canned product was adversely affected, prices declined, and so did demand, as the results clearly indicate.

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SELECTED HIGHLIGHTS OF BALANCE SHEET DATA  
COMPANIES GROUPED BY LOCATION OF MARKETS AS AT 1982

|                                                               | Over 25%<br>of Sales<br>To Canada | Over 30%<br>of Sales<br>To Japan | Over 10%<br>of Sales<br>To U.S. | Over 15%<br>of Sales<br>To U.K. | Over 40%<br>of Sales To<br>Rest of Europe | Balanced Mix<br>of Sales by<br>Country | Consolidated |
|---------------------------------------------------------------|-----------------------------------|----------------------------------|---------------------------------|---------------------------------|-------------------------------------------|----------------------------------------|--------------|
| <u>Assets</u><br>(\$ Thousands)                               |                                   |                                  |                                 |                                 |                                           |                                        |              |
| 1978                                                          | \$183,370                         | \$80,317                         | \$58,582                        | \$29,925                        | \$8,329                                   | \$72,305                               | \$255,457    |
| 1979                                                          | 194,478                           | 93,148                           | 63,256                          | 39,764                          | 12,900                                    | 80,103                                 | 287,887      |
| 1980                                                          | 210,881                           | 97,789                           | 68,014                          | 44,659                          | 9,205                                     | 90,738                                 | 303,871      |
| 1981                                                          | 224,871                           | 102,027                          | 70,940                          | 53,670                          | 13,886                                    | 97,055                                 | 322,267      |
| 1982                                                          | 223,995                           | 99,502                           | 68,803                          | 46,641                          | 14,741                                    | 88,706                                 | 321,152      |
| <u>Assets to Sales</u><br>(Percentage)                        |                                   |                                  |                                 |                                 |                                           |                                        |              |
| 1978                                                          | 53                                | 75                               | 79                              | 65                              | 26                                        | 83                                     | 56           |
| 1979                                                          | 57                                | 75                               | 74                              | 65                              | 33                                        | 82                                     | 59           |
| 1980                                                          | 72                                | 78                               | 76                              | 72                              | 30                                        | 81                                     | 70           |
| 1981                                                          | 60                                | 64                               | 71                              | 62                              | 38                                        | 78                                     | 59           |
| 1982                                                          | 73                                | 62                               | 62                              | 71                              | 33                                        | 69                                     | 65           |
| <u>Current Ratio</u>                                          |                                   |                                  |                                 |                                 |                                           |                                        |              |
| 1978                                                          | 1.9                               | 2.1                              | 2.3                             | 1.4                             | 1.3                                       | 1.9                                    | 1.9          |
| 1979                                                          | 1.7                               | 1.4                              | 1.8                             | 1.0                             | 1.3                                       | 1.6                                    | 1.6          |
| 1980                                                          | 1.7                               | 1.3                              | 1.6                             | 1.1                             | 1.4                                       | 1.5                                    | 1.6          |
| 1981                                                          | 1.6                               | 1.2                              | 1.5                             | 1.0                             | 1.2                                       | 1.4                                    | 1.5          |
| 1982                                                          | 1.5                               | 1.3                              | 2.0                             | 1.0                             | 1.2                                       | 1.7                                    | 1.4          |
| <u>Long-Term Debt<br/>to Equity (Incl.<br/>Private Loans)</u> |                                   |                                  |                                 |                                 |                                           |                                        |              |
| 1978                                                          | 26                                | 18                               | 7                               | 56                              | 11                                        | 13                                     | 22           |
| 1979                                                          | 27                                | 27                               | 12                              | 96                              | 34                                        | 25                                     | 27           |
| 1980                                                          | 47                                | 37                               | 18                              | 128                             | 28                                        | 34                                     | 44           |
| 1981                                                          | 45                                | 38                               | 19                              | 162                             | 23                                        | 34                                     | 43           |
| 1982                                                          | 51                                | 46                               | 16                              | 380                             | 16                                        | 27                                     | 46           |
| <u>Fixed Assets to<br/>Equity (Incl.<br/>Private Loans)</u>   |                                   |                                  |                                 |                                 |                                           |                                        |              |
| 1978                                                          | 50                                | 50                               | 38                              | 102                             | 18                                        | 45                                     | 47           |
| 1979                                                          | 51                                | 71                               | 43                              | 179                             | 13                                        | 70                                     | 56           |
| 1980                                                          | 71                                | 78                               | 55                              | 168                             | 15                                        | 71                                     | 72           |
| 1981                                                          | 72                                | 84                               | 58                              | 208                             | 17                                        | 73                                     | 75           |
| 1982                                                          | 82                                | 74                               | 47                              | 375                             | 18                                        | 59                                     | 77           |
| <u>Profit After Tax<br/>on Equity</u>                         |                                   |                                  |                                 |                                 |                                           |                                        |              |
| 1978                                                          | 18                                | 9                                | 10                              | 30                              | 21                                        | 10                                     | 15           |
| 1979                                                          | 1                                 | (5)                              | 3                               | (22)                            | 0                                         | 1                                      | (1)          |
| 1980                                                          | 1                                 | (4)                              | 2                               | 0                               | (11)                                      | 2                                      | (1)          |
| 1981                                                          | 3                                 | (9)                              | 3                               | (30)                            | 0                                         | 1                                      | 1            |
| 1982                                                          | (10)                              | (9)                              | 3                               | (107)                           | 23                                        | 2                                      | (7)          |
| <u>Income (before<br/>Interest and Taxes)<br/>to Assets</u>   |                                   |                                  |                                 |                                 |                                           |                                        |              |
| 1978                                                          | 17                                | 11                               | 7                               | 20                              | 16                                        | 11                                     | 15           |
| 1979                                                          | 4                                 | 1                                | 5                               | (1)                             | 6                                         | 2                                      | 3            |
| 1980                                                          | 4                                 | 5                                | 1                               | 7                               | 5                                         | 7                                      | 4            |
| 1981                                                          | 9                                 | 7                                | 10                              | 8                               | 8                                         | 9                                      | 10           |
| 1982                                                          | 5                                 | 5                                | 8                               | 2                               | 11                                        | 8                                      | 5            |
| <u>Participants in<br/>Sample</u>                             |                                   |                                  |                                 |                                 |                                           |                                        |              |
| 1982                                                          | 8                                 | 10                               | 4                               | 5                               | 4                                         | 6                                      | 20           |

- The consistently least profitable groups appear to be those companies selling 30% or more to Japan, and those selling 15% or more to the U.K., particularly the latter.
- From a balance sheet point of view, those companies selling to the rest of Europe appear to have the most favourable asset to sales and fixed assets to equity ratios, reflecting the lower investment nature of the frozen segment of the industry. However, this position need not necessarily correspond to the fact that sales of this group are primarily to Europe but may be the result of other factors. For example, some of the companies in this group do not can product, but concentrate on frozen and fresh salmon production, thereby not requiring as heavy an investment in machinery, equipment and packaging materials.
- Those companies with a balanced mix of sales by country do not particularly distinguish themselves as above or below average in sales or asset mix from the average, consolidated group. A similar conclusion can be reached for those companies selling more than 25% of their product to Canada - for example, they do not appear to be any more stable in earnings performance than other groups.

Overall, it appears that a comparison of companies by location of markets does not reveal too many differences in profit performance among the groups because most companies shift between canned and frozen product, and among markets depending on return from each market. More relevant perhaps is an examination of basic operations and debt burdens to determine which companies do well and which do not.



## EXHIBIT 17

SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY  
 SELECTED HIGHLIGHTS OF INCOME STATEMENT DATA  
 COMPANIES GROUPED BY LEVEL OF SALES

|                                                              |      | <u>1982 Net Sales<br/>of \$15 Million<br/>or Less</u> | <u>1982 Net Sales<br/>of More Than<br/>\$15 Million</u> | <u>Consolidated</u> |
|--------------------------------------------------------------|------|-------------------------------------------------------|---------------------------------------------------------|---------------------|
| <u>Net Sales</u><br>(\$ thousands)                           | 1978 | \$34,363                                              | \$423,875                                               | \$458,238           |
|                                                              | 1979 | 56,982                                                | 428,327                                                 | 485,309             |
|                                                              | 1980 | 44,072                                                | 387,736                                                 | 431,808             |
|                                                              | 1981 | 65,752                                                | 483,230                                                 | 548,982             |
|                                                              | 1982 | 64,452                                                | 427,461                                                 | 491,913             |
| <u>Net Sales</u><br>(Year-to-Year %<br>increase/decrease)    | 1979 | 65                                                    | 1                                                       | 6                   |
|                                                              | 1980 | (23)                                                  | (9)                                                     | (11)                |
|                                                              | 1981 | 49                                                    | 25                                                      | 27                  |
|                                                              | 1982 | 2                                                     | (11)                                                    | (10)                |
| <u>Gross Margin</u><br>(Percentage)                          | 1978 | 18                                                    | 14                                                      | 14                  |
|                                                              | 1979 | 9                                                     | 7                                                       | 7                   |
|                                                              | 1980 | 10                                                    | 9                                                       | 9                   |
|                                                              | 1981 | 10                                                    | 12                                                      | 12                  |
|                                                              | 1982 | 13                                                    | 12                                                      | 12                  |
| <u>Net Income After<br/>Tax as a Percentage<br/>of Sales</u> | 1978 | 5                                                     | 4                                                       | 4                   |
|                                                              | 1979 | (1)                                                   | 0                                                       | 0                   |
|                                                              | 1980 | (4)                                                   | 0                                                       | 0                   |
|                                                              | 1981 | (2)                                                   | 1                                                       | 0                   |
|                                                              | 1982 | -                                                     | (2)                                                     | (2)                 |
| <u>Interest Payments<br/>as a Percentage<br/>of Sales</u>    | 1978 | 2                                                     | 1                                                       | 2                   |
|                                                              | 1979 | 3                                                     | 3                                                       | 3                   |
|                                                              | 1980 | 4                                                     | 5                                                       | 5                   |
|                                                              | 1981 | 4                                                     | 6                                                       | 6                   |
|                                                              | 1982 | 4                                                     | 6                                                       | 5                   |
| <u>Sales to Inventory<br/>Ratio</u>                          | 1978 | 13                                                    | 3                                                       | 4                   |
|                                                              | 1979 | 10                                                    | 3                                                       | 4                   |
|                                                              | 1980 | 7                                                     | 3                                                       | 3                   |
|                                                              | 1981 | 14                                                    | 4                                                       | 4                   |
|                                                              | 1982 | 7                                                     | 3                                                       | 3                   |
| <u>Participants in<br/>Sample</u>                            | 1982 | 11                                                    | 9                                                       | 20                  |

#### 4.4.6 Comparison of Processors by Level of Sales

Exhibits 17 and 18 opposite this page and the next compare financial data for those companies with sales below \$15 million with companies with over \$15 million in sales.

Observations on the Exhibits include:

- Processors with sales of \$15 million or less constitute only 13% of total sample sales and only 9% of total sample assets.
- Sales of the smaller processors are shown to have increased dramatically in 1979 over 1978 but the increase shown reflects the addition of data for two processors who did not report results for 1978 and hence is not a real increase.
- Sales in 1981 over 1980 did show a strong increase for the smaller processors and, even in 1982, sales growth occurred whereas the larger processors as a whole experienced a sales decline.
- Gross margins for the smaller processors appear to be slightly better than for the larger companies as a whole, and sales to inventory ratios are more favourable. In addition, interest payments as a percent of sales are also lower than for the average.
- The profitability of the smaller processors has generally been poorer than that of the larger operations as a whole, with the exception of 1978 and recently in 1982. In the period 1979 and 1981, the smaller companies incurred a higher proportionate amount in selling, general and administrative expenses and received less extraordinary income or income from deferred taxes and from other operations.

## EXHIBIT 18

SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY  
 SELECTED HIGHLIGHTS OF BALANCE SHEET DATA  
 COMPANIES GROUPED BY LEVEL OF SALES

|                                                                         |      | 1982 Net Sales<br>of \$15 Million<br>or Less | 1982 Net Sales<br>of More Than<br>\$15 Million | Consolidated |
|-------------------------------------------------------------------------|------|----------------------------------------------|------------------------------------------------|--------------|
| <u>Assets</u><br>(\$ thousands)                                         | 1978 | \$10,705                                     | \$244,752                                      | \$255,457    |
|                                                                         | 1979 | 21,704                                       | 266,183                                        | 287,887      |
|                                                                         | 1980 | 21,260                                       | 282,611                                        | 303,871      |
|                                                                         | 1981 | 23,565                                       | 298,702                                        | 322,267      |
|                                                                         | 1982 | 27,577                                       | 293,575                                        | 321,152      |
| <u>Assets to Sales</u><br>(Percentage)                                  | 1978 | 31                                           | 58                                             | 56           |
|                                                                         | 1979 | 38                                           | 62                                             | 59           |
|                                                                         | 1980 | 48                                           | 73                                             | 70           |
|                                                                         | 1981 | 36                                           | 62                                             | 59           |
|                                                                         | 1982 | 42                                           | 69                                             | 65           |
| <u>Current Ratio</u>                                                    | 1978 | 1.4                                          | 2.0                                            | 1.9          |
|                                                                         | 1979 | 1.1                                          | 1.6                                            | 1.6          |
|                                                                         | 1980 | 1.1                                          | 1.6                                            | 1.6          |
|                                                                         | 1981 | 1.0                                          | 1.5                                            | 1.5          |
|                                                                         | 1982 | 0.9                                          | 1.5                                            | 1.4          |
| <u>Long-Term Debt</u><br><u>to Equity</u> (Incl.<br>Private Loans)      | 1978 | 20                                           | 22                                             | 22           |
|                                                                         | 1979 | 60                                           | 26                                             | 26           |
|                                                                         | 1980 | 88                                           | 42                                             | 42           |
|                                                                         | 1981 | 127                                          | 40                                             | 40           |
|                                                                         | 1982 | 186                                          | 42                                             | 42           |
| <u>Fixed Assets to</u><br><u>Equity</u> (Incl.<br>Private Loans)        | 1978 | 49                                           | 47                                             | 47           |
|                                                                         | 1979 | 96                                           | 54                                             | 56           |
|                                                                         | 1980 | 123                                          | 70                                             | 72           |
|                                                                         | 1981 | 171                                          | 72                                             | 75           |
|                                                                         | 1982 | 199                                          | 74                                             | 77           |
| <u>Profit After Tax</u><br><u>on Equity</u>                             | 1978 | 35                                           | 14                                             | 15           |
|                                                                         | 1979 | (6)                                          | (1)                                            | (1)          |
|                                                                         | 1980 | (39)                                         | 1                                              | (1)          |
|                                                                         | 1981 | (35)                                         | 2                                              | 1            |
|                                                                         | 1982 | (6)                                          | (7)                                            | (7)          |
| <u>Income (before</u><br><u>Interest and taxes)</u><br><u>to Assets</u> | 1978 | 27                                           | 15                                             | 15           |
|                                                                         | 1979 | 3                                            | 3                                              | 3            |
|                                                                         | 1980 | 1                                            | 4                                              | 4            |
|                                                                         | 1981 | 6                                            | 10                                             | 10           |
|                                                                         | 1982 | 8                                            | 5                                              | 5            |
| <u>Participants in</u><br><u>Sample</u>                                 | 1982 | 11                                           | 20                                             |              |

- On the balance sheet side, the smaller companies have generally had a less favourable long-term debt to equity, fixed assets to equity and return on equity position. (Note again that the increase in assets in 1979 over 1978 reflects an increase in sample size of two companies.)
- Many of the smaller companies in recent years have been operating on various forms of both short and long-term debt financing and have, in some years, also relied heavily on loans from customers or on private loans. Current liabilities have also risen substantially. Poor earnings in these years have, at the same time, depleted shareholders equity. The smaller equity base has compounded the loss position of these companies by showing high negative returns on equity, and has created other unfavourable equity-based ratios.

In summary, the above data indicate that the smaller processors as a group show considerable signs of financial difficulty despite relatively good gross margins and not unduly heavy interest expenses. However, many of the small processors have not earned favourable profits and have had difficulty financing their operations with sufficient equity. A few of these smaller companies are now in or perhaps close to receivership.

A detailed examination of the results of individual processors, indicates, however, that there are some in the group who are reasonably profitable, and whose results are not fairly represented by the average data in Exhibits 17 and 18.

#### 4.4.7 Conclusions

The difference in results among certain of the groupings of companies analysed in this chapter is considerably less than might have been expected. We have concluded that the low level of variations among some groupings can be attributed to the flexibility that many processors have to adjust to various raw material supply and market conditions. For example, as Exhibits 7 and 8 indicate, companies with over 90 percent of the sample's assets, and 80 percent of the sales, are able to can or freeze the salmon they process. This allows the great majority of the industry to react to changes in market conditions.

The data in Exhibits 15 and 16 indicate some, but not a great amount of, variation in margins and profits depending on where product is marketed. The differences are small because most processors have good market knowledge and will tend to shift between markets if the profit earning potential of one market changes significantly from other markets.

Overall, the analysis of groupings of companies reinforces the general finding of this study that the processing industry has not earned an adequate return on investment since 1978. This conclusion is best borne out of examination of the grouping of processors by level of equity to assets. As would be expected, processors with higher levels of equity, and lower interest costs, had better than average profit levels. Even so, it should be noted that only modest levels of profit were earned by many of these companies and that some processors' profits did not justify the level of equity investment in the 1979 to 1982 period. Indeed, for a number of processors, the level of equity dropped over the period, as did profits, while debt burdens and interest costs increased.

A few companies, with the weakest equity to asset ratios, are now in severe financial difficulty. Several others could be in that position if adverse conditions significantly affect profits in the future. The implications of this situation for the sampled processors are discussed in Chapter Six.

#### **4.5 SAMPLE COMMENTS ON FORECASTED FINANCIAL RESULTS AND EXPECTED CAPITAL EXPENDITURES**

##### **4.5.1 1983 Forecasted Results**

Respondents to the survey were asked to provide a forecast of expected sales and profits in 1983 and to comment on the cause of these results.

Four of the 21 companies responding to the survey indicated that they were currently in receivership.

Three other companies indicated that they expected losses in 1983; however, each reflected somewhat different circumstances. One processor forecasted reduced sales and substantial continuing losses. A second indicated a small increase in sales but lower gross margins and hence a small loss compared to a small profit in 1982. The third processor expected that losses would continue in 1983 but at a reduced level, since a 10% increase in sales was expected.

Only one company expressed some optimism about its future, attributing its good results to integrated operations, efficient processing and strong marketing.

Of the remaining 14 company respondents, five indicated that they expected to earn profits in 1983 of between 1% to 3.5% of sales. Two



others said they expected to break even. A number of these respondents indicated that their 1983 results included a poor sales period in early 1983 but expected that a better 1983 fishing season might offset some of the earlier losses. Seven did not provide forecasts of sales and profits but only one of these suffered losses in 1982.

In total, it appears that some 13 companies, or 62% of the responding companies, could be expected to make a profit or at least break even in 1983. For the most part, those expecting to earn a profit are not satisfied with the level of profit; however, there were several good performers in the industry. The other 8 companies or 38% of respondents are expected to suffer losses in 1983.

Explanations given to us by those processors with poor results vary from "poor salmon runs - not catching any 'value' fish" to "results are poor because Government condones cash buyers working from government wharves, offering fishermen higher prices with virtually no investment".

Other comments explaining poor results included:

- o slim margins,
- o continued depressed market values, heavy discounting,
- o unfavourable foreign exchange rates,
- o carryover of previous year's high cost pack, and
- o depressed canned salmon and roe market,
- o over-supply of pinks and extensive lower-priced Alaskan competition.

In summary it is reasonable to assume that 1983 will not be a record-breaking year, such as 1978, but neither will major losses and

further erosion of capital occur. 1983 will likely be remembered as a year during which the industry marked time while decisions on basic industry policy were decided.

#### 4.5.2 Expected Capital Expenditures

Companies were asked to forecast capital expenditures expected over the 1983 to 1986 period for normal replacement of facilities and equipment, and for major changes or expansion.

Seven companies replied that they had no plans for any capital expenditures over the 1983 to 1986 period. One other indicated no major expansions or changes but some minor expenditures in each of the next four years for expansion of cold storage facilities if financing was made available. Another also indicated minor expenditures, but only in 1984, to improve processing capabilities.

Two companies indicated that they expected to continue to spend significant amounts on normal replacement over the next four years. One of these two also indicated substantial expenditures were planned in 1983 to complete a project begun in 1982. Another indicated that significant changes were needed to be made over the 1984 to 1986 period to improve efficiency, but at the present time these could not be justified because its plant was underutilized.

Ten of the responding companies gave no response to the question concerning future capital expenditures. As indicated above, four of these companies are presently in receivership.

Overall, it appears that only a modest amount of new investment is planned by industry participants in the period to 1986. Comments explaining this situation include:

- o major capital expenditures cannot be justified due to poor ROI; expenditures would deplete working capital,
- o unless a clear policy is established by Government with regard to the Pearce proposals, strategic planning for capital expenditures is difficult,
- o uncertainty, and
- o no available source of financing, due to cumulative losses being unacceptable to lenders.

In more fundamental terms, the industry is a mature one which does not foresee volume increases, because it is constrained by resource availability. As a result it is not at all surprising to learn that only modest capital investment is planned, for any other result would be uncalled for in the face of existing capacity and the volume constraint.

## 5.0 ANALYSIS OF SELECTED OPERATING CHARACTERISTICS OF THE INDUSTRY

In this part of the report, selected operating characteristics of the B.C. Fish Processing Industry are presented. Information on operating characteristics was collected in the sample survey in order to identify particular modes of operations that might result in comparative groupings of companies that would show differences in profitability or general financial condition. Several such comparative groupings of companies were presented in Section 4.4 of this report.

Not all companies were able, however, to report the various operating and marketing statistics requested in the questionnaire as will be apparent in the analyses that follow. Where sufficient data were available to analyze results without disclosing individual respondent figures, such analyses are provided.

The analyses presented in this part of the report include review of:

- Sales by product,
- Sales by location of markets,
- Costs of production,
- Inventory changes,
- Industry seasonality,
- Industry capacity, and
- Mode of catch.

## 5.1 SALES BY PRODUCT ANALYSIS

Only limited information was collected in the survey in regard to sales by type of product and sales price per pound for each product group. Although two schedules, C-1 and E, in the questionnaire were

designed to collect this information, the majority of processors indicated that their sales records were insufficiently detailed to provide a product breakdown. While in certain cases records were kept of production by type of product produced, sales records showed only sales by customers and not by types of product sold.

Only eight companies of the 21 included in the sample provided sufficient sales detail to show a product breakdown.

The consolidated results of these eight companies, whose sales represent 66% of total sample sales in 1982, indicate the following proportions of products sold:

|                         | <u>1980</u>    | <u>1981</u>    | <u>1982</u>    |
|-------------------------|----------------|----------------|----------------|
| Canned Salmon           | 44.5 %         | 46.1 %         | 39.0 %         |
| Frozen and Other Salmon | 41.4           | 34.3           | 40.1           |
| Herring                 | 3.0            | 10.8           | 12.5           |
| Groundfish              | <u>11.1</u>    | <u>8.8</u>     | <u>8.4</u>     |
|                         | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |

Noteworthy is the relative lack of sales of herring roe in 1980 and the greater emphasis on canned salmon in 1981, followed by a decline in canned salmon sales in 1982. Insufficient data were collected to provide a fully representative indication of sales price per pound for the above product categories.

## 5.2 SALES BY LOCATION OF MARKETS

Eighteen of the 21 respondents were able to identify the countries to which they sold their fish products. On a consolidated basis, the producers indicated the following distribution of sales:

|                                     | <u>1982</u> |
|-------------------------------------|-------------|
| Canada (domestic sales)             | 30%         |
| United States                       | 7%          |
| United Kingdom                      | 11%         |
| Other European Countries            | 17%         |
| Australia/New Zealand               | 2%          |
| Japan                               | 27%         |
| Other or Unspecified Export Markets | <u>6%</u>   |
|                                     | <u>100%</u> |

In 1982, more than two-thirds of sales went to foreign markets, with the largest single foreign market being Japan. In Section 4.4, groupings of respondents by location of markets showed that some processors relied more heavily on certain markets; however, only 4 processors sell more than 70% of their sales volume to any one country.

Several respondents to the survey commented on the risks associated with heavy reliance on export markets. Not only was the risk of adverse foreign exchange fluctuations cited as a determining factor in sales profitability, but factors such as barriers to entry were mentioned. An example was given of tariffs imposed by West Germany on imports of processed salmon (e.g. smoked salmon), which restricted Canadian processors' access to this market.

Several respondents also commented that Canadian regulations on grading of fish were counter-productive in helping Canadians sell to export markets. It was said that inspectors are not in touch with what foreign buyers are looking for in a fish product and that processors and buyers should be left to judge the quality of the fish destined for the various market segments they serve.



SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY  
BASED ON: GENERAL CONSOLIDATION

EXHIBIT 19

SCHEDULE OF COST OF PRODUCTION  
(AS A PERCENTAGE OF TOTAL COST OF PRODUCTION)

|                                                                                                                                                                           | <u>1978</u>  | <u>1979</u>  | <u>1980</u>  | <u>1981</u>  | <u>1982</u>  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Raw Material - Fish<br>(cost related to obtaining<br>fish at plant site)                                                                                                  | 62 %         | 61 %         | 50 %         | 52 %         | 57 %         |
| Purchased Finished Product<br>(total cost of fish product<br>purchased in finished form<br>for resale to customers)                                                       | 18           | 19           | 27           | 22           | 20           |
| Other Material Costs<br>(e.g. raw material for non-<br>fish product, production and<br>packaging supplies)                                                                | 3            | 3            | 4            | 6            | 4            |
| Labour Costs<br>(labour costs of processing<br>operations including maintenance,<br>fringe benefits and plant manage-<br>ment, but excluding admin. and<br>selling costs) | 12           | 12           | 12           | 13           | 12           |
| Energy Costs<br>(Oil, electricity costs, etc.)                                                                                                                            | 1            | 0            | 1            | 1            | 1            |
| Other Production Costs<br>(other costs of production)                                                                                                                     | <u>4</u>     | <u>4</u>     | <u>5</u>     | <u>6</u>     | <u>6</u>     |
| Total Cost of Production                                                                                                                                                  | <u>100 %</u> | <u>100 %</u> | <u>100 %</u> | <u>100 %</u> | <u>100 %</u> |
| Number of Participants                                                                                                                                                    | 15           | 16           | 17           | 17           | 17           |

In general, many respondents commented on the extremely competitive world market for fish products and several processors indicated that the B.C. fishing industry was vulnerable to loss of market share because of high prices paid to fishermen and the high costs of processing in B.C.

### 5.3 ANALYSIS OF COSTS OF PRODUCTION

In Exhibit 19 is an historical analysis of the costs of production for the sample, showing major cost categories.

Raw materials, or costs of obtaining fish, declined as a proportion of total production costs over the 1978 to 1980 period but began to increase again in 1981 and 1982. It should be noted that raw material costs vary by year, depending on the types of fish caught. Although the questionnaire for this survey requested more detail on types of fish processed by year, most respondents were unable to supply this information and hence more detailed analyses of this factor as it affects raw material costs could not be undertaken.

Costs of purchasing finished product for resale to customers varied from 18% to 22% of total production costs over the period 1978 to 1982, except for 1980 when they rose to 27%. This increase could be accounted for by a strike in the industry in that year. In order to maintain relationships with customers, some producers may have bought product from non-union producers or from foreign producers to supply to their customers.

Other materials costs remained a fairly steady proportion of total production costs over the five year period except for 1981 when these costs rose to 6% of the total. No reason for this increase was apparent from respondents' comments.

Labour costs have shown no significant change in relative importance over the 1978 to 1982 period. However, the industry wage bill did rise significantly in 1981 to \$61.7 million from levels of \$46 to \$51 million in other years of this period. The increase in catches and sales volumes in 1981 may have encouraged producers to employ a larger workforce in that year with an accompanying higher wage bill. 1981 was also a year following an industry strike and thereby probably reflected somewhat higher wages per worker than in previous years. In 1982, however, the workforce in the industry was reduced as total labour costs fell to \$48 million.

Other available data from the survey on total wage costs and total hours of labour for 25 plants in B.C. show an average labour cost of \$13.08 per hour in 1982.

Energy costs show no significant variation over the period surveyed and, as the data indicate, energy is not a major cost factor in processing. It was outside the scope of the data gathered to examine the impact of energy costs on harvesting or on finished products distribution, both of which have a greater energy cost component. Other costs of production do show a trend toward a higher proportion of total costs of production reflecting lower final sales prices for finished product, especially canned salmon.

In addition to the consolidated results presented in Exhibit 19, comparisons of costs of production are shown in Exhibit 20 for selected groupings of companies for 1982.

EXHIBIT 20

SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY

SCHEDULE OF COST OF PRODUCTION FOR 1982  
(AS A PERCENTAGE OF TOTAL COST OF PRODUCTION)

|                                                                                                                                                                           | <u>More<br/>Than 10%<br/>of Product<br/>Is Canned</u> | <u>Less<br/>Than 10%<br/>of Product<br/>Is Canned</u> | <u>Plants<br/>Outside<br/>the Lower<br/>Mainland</u> | <u>Plants<br/>Inside<br/>the Lower<br/>Mainland</u> | <u>Plants with<br/>Less Than<br/>\$15 Million<br/>In Sales</u> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------|------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------------------|
| Raw Material - Fish<br>(cost related to obtaining<br>fish at plant site)                                                                                                  | 55 %                                                  | 68 %                                                  | 69 %                                                 | 55 %                                                | 77 %                                                           |
| Purchased Finished Product<br>(total cost of fish product<br>purchased in finished form<br>for resale to customers)                                                       | 21                                                    | 20                                                    | 3                                                    | 24                                                  | 2                                                              |
| Other Material Costs<br>(e.g. raw material for non-<br>fish product, production and<br>packaging supplies)                                                                | 5                                                     | 2                                                     | 4                                                    | 4                                                   | 5                                                              |
| Labour Costs<br>(labour costs of processing<br>operations including maintenance,<br>fringe benefits and plant manage-<br>ment, but excluding admin. and<br>selling costs) | 13                                                    | 5                                                     | 17                                                   | 11                                                  | 10                                                             |
| Energy Costs<br>(Oil, electricity costs, etc.)                                                                                                                            | 1                                                     | 0                                                     | 1                                                    | 1                                                   | 1                                                              |
| Other Production Costs<br>(other costs of production)                                                                                                                     | <u>6</u>                                              | <u>4</u>                                              | <u>6</u>                                             | <u>6</u>                                            | <u>5</u>                                                       |
| Total Cost of Production                                                                                                                                                  | <u>100 %</u>                                          | <u>100 %</u>                                          | <u>100 %</u>                                         | <u>100 %</u>                                        | <u>100 %</u>                                                   |
| Number of Participants                                                                                                                                                    | 9                                                     | 8                                                     | 5                                                    | 12                                                  | 9                                                              |

The first two groupings compare those companies with significant canning activities and those with little or no canning operations. Those with canning operations have significantly higher proportional costs for non-fish related raw materials (e.g. packaging supplies), labour costs and even other production costs. Those companies who do not can product, spend only about one-third of their production costs for non-raw-fish materials.

Comparison of plants who operate outside the Lower Mainland with those operating inside, show that the plants outside the Lower Mainland buy very little raw material product for resale. This difference tends to distort some of the other comparisons. However, exclusion of this category of costs from all data, results in the following comparison:

|                                                                        | <u>Plants Outside<br/>Lower Mainland</u> | <u>Plants Inside<br/>Lower Mainland</u> |
|------------------------------------------------------------------------|------------------------------------------|-----------------------------------------|
| Raw Material - Fish                                                    | 71%                                      | 72%                                     |
| Other Raw Material                                                     | 4%                                       | 6%                                      |
| Labour Costs                                                           | 17%                                      | 14%                                     |
| Energy Costs                                                           | 1%                                       | 1%                                      |
| Other Costs                                                            | <u>7%</u>                                | <u>7%</u>                               |
| Total Production Costs<br>(excluding Purchases<br>of Finished Product) | <u>100%</u>                              | <u>100%</u>                             |

This comparison primarily shows that labour costs account for a higher proportion of costs of production in plants outside the Lower Mainland than inside.

Plants with sales of less than \$15 million were also examined to see if their pattern of costs of production differed from the average



consolidated results. Significant in this group of plants is the relatively small proportion bought for resale. Again, excluding this item from total costs of production yields the following comparison:

|                                                                        | <u>Plants With<br/>Sales Less<br/>Than \$15 Million</u> | <u>All Plants<br/>Consolidated</u> |
|------------------------------------------------------------------------|---------------------------------------------------------|------------------------------------|
| Raw Material - Fish                                                    | 78%                                                     | 72%                                |
| Other Raw Material                                                     | 5%                                                      | 5%                                 |
| Labour Costs                                                           | 10%                                                     | 15%                                |
| Energy Costs                                                           | 1%                                                      | 1%                                 |
| Other Costs                                                            | <u>6%</u>                                               | <u>7%</u>                          |
| Total Production Costs<br>(excluding Purchases<br>of Finished Product) | <u>100%</u>                                             | <u>100%</u>                        |

This comparison shows that the smaller plants have lower labour costs than the average and that raw fish material costs account for a high of 78% of total adjusted production costs. A major cause of this is that the less than \$15 million group includes a higher percentage of plants that do not can, but only freeze. Canning involves more labour costs.

#### 5.4 ANALYSIS OF INVENTORY CHANGES

The following table highlights the changes in inventory held by the companies in the sample over the reporting period 1978 to 1982. The data presented generally reflect year-end inventory levels: twelve respondents, representing 74% of 1982 sales reported inventory data as at December 31st; six others reported inventory for fiscal years ending from January to April and only two reported inventories for fiscal years ending in other months.



Inventory of B.C. Fish Processors  
1978 - 1982

|                           | <u>1978</u> | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Inventory (\$ million)    | \$128.0     | \$130.0     | \$131.3     | \$138.8     | \$151.2     |
| Percent Increase/Decrease | -           | 2%          | 1%          | 6%          | 9%          |
| Inventory to Total Assets | 50%         | 45%         | 43%         | 43%         | 47%         |
| Sales to Inventory Ratio  | 3.6         | 3.7         | 3.3         | 4.0         | 3.3         |

Inventory values grew very little year to year until 1981 and 1982 when inventory amounts rose to \$151 million by the end of the period, and inventory to assets rose to 47% after having fallen in the middle of the period.

1978, 1979 and 1981 were better years for inventory turnover, while the balance between inventory and sales worsened in 1980 and 1982, with the 1981 and 1982 results caused mainly by an increase in canned product.

On an individual processor basis, sales to inventory ratios have varied significantly. The table below shows the distribution of sales to inventory ratios for the processors surveyed.

| <u>Sales to<br/>Inventory<br/>Range</u> | <u>1978</u>  |                | <u>1979</u>  |                | <u>1980</u>  |                | <u>1981</u>  |                | <u>1982</u>  |                |
|-----------------------------------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|----------------|
|                                         | <u>Count</u> | <u>% Sales</u> | <u>Count</u> | <u>% Sales</u> | <u>Count</u> | <u>% Sales</u> | <u>Count</u> | <u>% Sales</u> | <u>Count</u> | <u>% Sales</u> |
| 0 - 7.0                                 | 6            | 83.2           | 7            | 61.6           | 8            | 83.2           | 8            | 83.2           | 10           | 80.9           |
| 7.0 - 20.0                              | 6            | 12.4           | 8            | 34.7           | 8            | 15.3           | 7            | 10.1           | 7            | 17.1           |
| Over 20.0                               | <u>5</u>     | <u>4.4</u>     | <u>4</u>     | <u>3.7</u>     | <u>3</u>     | <u>1.5</u>     | <u>5</u>     | <u>6.7</u>     | <u>3</u>     | <u>2.0</u>     |
| Total Sample                            | <u>17</u>    | <u>100.0%</u>  | <u>19</u>    | <u>100.0%</u>  | <u>19</u>    | <u>100.0%</u>  | <u>20</u>    | <u>100.0%</u>  | <u>20</u>    | <u>100.0%</u>  |

Clearly the sales to inventory ratio for some of the smaller processors is extremely favourable. These processors tend to be very seasonal producers who carry minimal inventories at calendar year-end.

The number of processors operating at sales to inventory ratios of between 7.0 to 20.0 is also significant. These tend to be a mix of small and mid-size operations. However, by 1982, when inventories had risen to an all-time industry high (in value terms), roughly 80% of industry sales were represented by companies with a sales to inventory ratio of under 7.0.

One further analysis was made possible by the data collected for this study. The table below indicates the amount of inventory held by 13 companies who reported detail on inventories by type of product. These 13 companies represent 91.1% of total sample sales in 1982 and their inventories for the four primary product groups shown below account for 82.0% of total sample inventories.

Inventories by Product for 13 Reporting Companies

|                         | 1981             |               | 1982             |               |
|-------------------------|------------------|---------------|------------------|---------------|
|                         | <u>\$000's</u>   | <u>%</u>      | <u>\$000's</u>   | <u>%</u>      |
| Canned Salmon           | \$79,611         | 71.0%         | \$74,427         | 60.0%         |
| Frozen and Other Salmon | 14,262           | 12.7%         | 30,547           | 24.7%         |
| Herring                 | 14,132           | 12.6%         | 15,284           | 12.3%         |
| Groundfish              | <u>4,110</u>     | <u>3.7%</u>   | <u>3,697</u>     | <u>3.0%</u>   |
|                         | <u>\$112,115</u> | <u>100.0%</u> | <u>\$123,955</u> | <u>100.0%</u> |

As three of the 13 reporting companies reported inventory at a period other than December 31st, there appear to be higher inventories of

herring in the above data than might be expected if all data were reported at December 31st.

It is interesting to note that the increase in 1982 over 1981 in value of product inventories for the reporting group consisted mainly of an increase in frozen and other non-canned salmon products. The value of canned salmon inventories did not increase in 1982 over 1981, although a botulism scare in Europe related to an Alaskan canned salmon product reduced canned salmon sales in that year. Reliable data on the number of cases or pounds in inventory at the end of 1982 is not, however, available from the survey results, as relatively few companies reported this statistic. Hence, it is not possible to say whether any of the inventory value changes in 1982 reflected declining or increasing prices for the principal product categories, rather than real physical volume changes.

#### 5.5 INDUSTRY SEASONALITY

Industry seasonality is illustrated by the following data collected during the survey, showing payroll dollars paid by month in 1982 or the most recent period for which data were available (for 19 reporting companies with 25 plants):

##### Estimated Distribution of Payroll Dollars by Months

|          |             |           |             |
|----------|-------------|-----------|-------------|
| January  | 3 %         | July      | 17 %        |
| February | 3           | August    | 22          |
| March    | 9           | September | 10          |
| April    | 7           | October   | 8           |
| May      | 8           | November  | 4           |
| June     | <u>6</u>    | December  | <u>3</u>    |
|          | <u>36 %</u> |           | <u>64 %</u> |

EXHIBIT 21

SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY

VARIATION IN PLANT THROUGHPUT BY MONTH  
(NUMBER OF PLANTS WITHIN RANGES OF PERCENT OF  
TOTAL ANNUAL THROUGHPUT)

|                   | J | F | M  | A | M  | J  | J  | A  | S  | O  | N | D |
|-------------------|---|---|----|---|----|----|----|----|----|----|---|---|
| <u>Salmon</u>     |   |   |    |   |    |    |    |    |    |    |   |   |
| 0 - 10%           | 1 | 1 | 2  | 8 | 13 | 17 | 1  | 1  | 10 | 12 | 4 | 1 |
| 10 - 30%          |   |   |    |   |    | 6  | 16 | 7  | 14 | 2  |   |   |
| 30 - 50%          |   |   |    |   |    |    | 7  | 14 |    |    |   |   |
| Over 50%          |   |   |    |   |    |    |    | 2  |    |    |   |   |
| <u>Herring</u>    |   |   |    |   |    |    |    |    |    |    |   |   |
| 0 - 10%           |   |   | 2  |   |    | 2  | 1  |    |    |    | 1 | 3 |
| 10 - 30%          |   | 1 | 1  | 3 | 4  |    |    | 1  | 1  |    |   |   |
| 30 - 50%          |   |   | 3  | 4 | 2  |    |    |    |    |    | 1 | 1 |
| Over 50%          |   |   | 11 | 1 |    |    | 1  |    |    |    |   |   |
| <u>Halibut</u>    |   |   |    |   |    |    |    |    |    |    |   |   |
| 0 - 10%           | 1 | 1 | 1  | 1 | 2  | 1  | 4  | 4  | 3  | 1  | 1 | 1 |
| 10 - 30%          |   |   |    |   | 4  | 4  | 7  | 3  | 3  |    |   |   |
| 30 - 50%          |   |   |    |   | 4  | 6  | 1  |    |    |    |   |   |
| Over 50%          |   |   |    |   | 3  | 4  | 1  |    |    |    |   |   |
| <u>Groundfish</u> |   |   |    |   |    |    |    |    |    |    |   |   |
| 0 - 10%           | 6 | 6 | 4  | 6 | 5  | 3  | 2  | 5  | 7  | 6  | 5 | 5 |
| 10 - 30%          | 1 | 1 | 1  | 4 | 4  | 7  | 8  | 4  | 3  | 1  | 2 | 1 |
| 30 - 50%          | 1 | 1 |    |   |    |    | 1  |    |    |    |   |   |
| Over 50%          |   |   |    |   |    | 1  | 1  |    |    |    |   |   |

This analysis shows the high concentration of labour costs in the July and August period.

Exhibit 21 on the page opposite illustrates the extent of seasonality of production in the plants surveyed, by type of product produced.

Exhibit 21 shows that salmon throughput is concentrated for most plants in the months of July through September, although a small number of plants operate year-round and between 8 to 13 plants operate at reduced volumes in the months of April, May and October.

Herring throughput is concentrated for most plants in March, April or May, although a few plants process significant amounts of their herring output in July, November and December.

Halibut production is also concentrated, with the production season extending from May to July, with spill-over for some processors to October. One processor reported significant operations year-round.

Most processors of groundfish spread their production of this product over the full year, with only a few concentrating in the summer season.

Given that salmon production is the biggest throughput product for the industry as a whole, it is apparent that the pattern of production for the industry is indeed highly seasonal. This study did not attempt to address day-to-day or week-to-week variability of processor throughput during the peak production season. We understand that this is a significant issue in the industry.

## 5.6 INDUSTRY CAPACITY

Only limited analysis could be undertaken of industry capacity from the data available from the sample survey, due to variations in the way data were reported.

Reported capacity for the principal categories of product ranged roughly as follows for 21 plants (15 companies) reporting these data:

|                         | <u>Thousands of lbs.<br/>On an 8 Hour Shift</u> |         |
|-------------------------|-------------------------------------------------|---------|
| Canned Salmon           | 30                                              | - 350   |
| Frozen and Other Salmon | 20                                              | - 150   |
| Herring roe             | 20                                              | - 2,000 |
| Halibut                 | 25                                              | - 200   |
| Groundfish              | 5                                               | - 125   |

These significant variations in capacity are reflected also in significant sales size variations among the reporting companies as follows:

|                       | <u>Number of Companies</u> |
|-----------------------|----------------------------|
| Under - \$10 million  | 10                         |
| \$10 - \$20 million   | 4                          |
| \$20 million and over | <u>6</u>                   |
| Total Reporting       | <u>20</u>                  |

A few companies reported underutilized facilities at peak periods of production, during 1982, giving the following reasons:

|               | <u>Lack of<br/>Market Demand</u><br>(# of companies) | <u>Poor<br/>Catch Levels</u><br>(# of companies) |
|---------------|------------------------------------------------------|--------------------------------------------------|
| Canned Salmon | -                                                    | 3                                                |
| Frozen Salmon | 2                                                    | 5                                                |
| Herring       | 2                                                    | 3                                                |
| Halibut       | 3                                                    | 4                                                |
| Groundfish    | 1                                                    | 4                                                |



Others indicated that there were capacity constraints imposed on their producing more output, with the greatest number indicating a lack of self-owned freezing capacity.

Generally it was found that the question of industry capacity was a complex one and could not be properly addressed within the scope of this study.

At the present time, capacity constraint does not appear to be a problem and would only become so if catch levels were to increase substantially. Processors also indicated that they could process significantly more fish at their present capacity if the delivery of fish could be evened out better on a day-to-day and week-to-week basis.

#### 5.7 INDUSTRY MODE OF CATCH

An attempt was made to describe for the sample as a whole the industry methods of catch used for obtaining salmon, herring and groundfish supplies. However, the data available from individual processors required weighting in order to produce a consolidated picture for the sample as a whole. Because insufficient numbers of returns provided the statistics required for weighting, the table below reports the aggregated mode of catch for only a limited number of respondents.

Sources of Raw Material By Mode of Catch

|                           | <u>Salmon</u> | <u>Herring</u> | <u>Groundfish</u> |          |
|---------------------------|---------------|----------------|-------------------|----------|
| Seine                     | 43%           | 68%            | 92%               | Trawler  |
| Gillnet                   | 25%           | 32%            | 6%                | Longline |
| Troll                     | 31%           | -              | 2%                | Troll    |
| Other                     | -             | -              | -                 | Other    |
| Total                     | <u>100%</u>   | <u>100%</u>    | <u>100%</u>       | Total    |
| Number of<br>Participants | 8             | 7              | 5                 |          |

Analysis of individual processor statistics shows the following variation in percent of catch by mode of catch.

Number of Responding Plants by Percentage Ranges

|                   | <u>0 - 20%</u> | <u>20% - 50%</u> | <u>50% - 80%</u> | <u>80% - 100%</u> |
|-------------------|----------------|------------------|------------------|-------------------|
| <u>Salmon</u>     |                |                  |                  |                   |
| Seine             | 6              | 5                | 8                | 1                 |
| Gillnet           | 13             | 11               | -                | -                 |
| Troll             | 7              | 5                | 4                | 6                 |
| <u>Herring</u>    |                |                  |                  |                   |
| Seine             | -              | 1                | 10               | 6                 |
| Gillnet           | 4              | 7                | 1                | 6                 |
| Troll             | -              | -                | -                | -                 |
| Other             | 1              | -                | -                | 1                 |
| <u>Groundfish</u> |                |                  |                  |                   |
| Trawler           | 1              | 1                | 1                | 7                 |
| Longline          | 7              | 2                | 1                | 4                 |
| Troll             | 5              | -                | -                | -                 |
| Other             | -              | 2                | 1                | 1                 |

*Clarkson Gordon*

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This analysis simply further indicates that few plants are significantly reliant on a particular method of catch for salmon. However, most plants are reliant on the seine fleet for herring catches. Groundfish is primarily caught by trawlers in volume terms but some plants rely on longline catches.

## 6.0 SUMMARY OF STUDY IMPLICATIONS

This summary includes commentary on the historical performance of the British Columbia fish processing sector, its current financial condition and the extent of financial improvement required to strengthen the industry. It concludes with observations on the viability of the B.C. fish processing industry and its ability to support a restructuring program in the primary sector.

### 6.1 HISTORICAL SUMMARY OF THE FINANCIAL CONDITION OF THE BRITISH COLUMBIA FISH PROCESSING SECTOR

The processing sector of the B.C. fishing industry entered 1979, the commencement of the study period, in satisfactory financial condition. At the end of 1978, the sample of processors covered in this report had \$132 million of their \$255 million in assets financed by equity and private loans - about 50 percent equity to assets, an acceptable ratio. In 1978 the industry earned \$20 million on its equity, a 15 percent after-tax return representing a good performance. 1978 also marked the last time that an unpredictable, major favourable event occurred, that being the very profitable Japanese herring roe market in that year.

In the next four years the situation changed and the sampled plants did not experience favourable results. Losses were incurred in three of the four years. The remaining year, 1981, showed a less than two percent return on equity, and an under one percent return on assets, as high interest rates adversely impacted what would otherwise have been a modestly successful year. In total, over the period 1979 to 1982, the sampled processors incurred \$9 million in losses.

Since 1979, most B.C. processors have been unable to obtain a sufficient mark-up on cost relative to sales to show a profit. In 1982, gross margins were below 15% for processors representing over 90% of the sampled sales, compared to 1978 when processors with more than 60% of the sampled sales achieved gross margins above 15%. Major factors in this gross margin decline have been weaker world markets and growing competition from the Alaskan fishery with its lower landed cost of fish.

During the 1979 to 1982 period, a modest amount of asset growth occurred in the sample companies. In addition to the asset growth reflected in the sample, some additional investment occurred in the processing sector by companies outside of those sampled. The element which was not represented in the sample mainly consisted of smaller processors who entered the industry in the late 1970's; however, several of these had left the processing sector by 1983 and hence were not included in this survey.

The growth of assets during the survey period in the sampled companies was as follows:

|                     | Balance as of the Fiscal End of |              |                    |              | Increase<br>between 1978<br>and 1982 |             |
|---------------------|---------------------------------|--------------|--------------------|--------------|--------------------------------------|-------------|
|                     | 1978                            |              | 1982               |              |                                      |             |
|                     | <u>\$ millions</u>              | <u>%</u>     | <u>\$ millions</u> | <u>%</u>     | <u>\$ millions</u>                   | <u>%</u>    |
| Inventories         | \$128                           | 50 %         | \$151              | 47 %         | \$23                                 | 18 %        |
| Accounts receivable | 47                              | 19           | 58                 | 18           | 11                                   | 23          |
| Fixed Assets        | 62                              | 24           | 89                 | 28           | 27                                   | 44          |
| Other               | <u>18</u>                       | <u>7</u>     | <u>23</u>          | <u>7</u>     | <u>5</u>                             | <u>28</u>   |
| TOTAL               | <u>\$255</u>                    | <u>100 %</u> | <u>\$321</u>       | <u>100 %</u> | <u>\$66</u>                          | <u>26 %</u> |

The industry's asset base grew by \$66 million, or just over 25 percent in the four year period. This increase is lower than the Consumer Price Index increases in the same four year period. We have examined the details of the asset growth in the sample and have determined that more than half of these increased values most likely represent inflation of values of the same quantity of assets, rather than increases in real assets.

The \$66 million of additional assets, and the \$9 million in losses from 1979 to 1982, had to be financed. How this financing occurred provides considerable insight into why the industry is in a significantly more vulnerable financial condition at the end of 1982 than it was in 1978. The table below highlights how the industry was financed over the study period.

|                                              | Balance as of the Fiscal End of |              |                    |              | Increase                 |             |
|----------------------------------------------|---------------------------------|--------------|--------------------|--------------|--------------------------|-------------|
|                                              | 1978                            |              | 1982               |              | between 1978<br>and 1982 |             |
|                                              | <u>\$ millions</u>              | <u>%</u>     | <u>\$ millions</u> | <u>%</u>     | <u>\$ millions</u>       | <u>%</u>    |
| Short-term loans                             | \$ 36                           | 14 %         | \$ 98              | 30 %         | \$62                     | 172 %       |
| Long-term loans from<br>conventional sources | 17                              | 7            | 48                 | 15           | 31                       | 182         |
| Private loans                                | 32                              | 13           | 31                 | 10           | (1)                      | (3)         |
| Other - mostly payables                      | 70                              | 27           | 60                 | 19           | (10)                     | (14)        |
| Equity                                       | <u>100</u>                      | <u>39</u>    | <u>84</u>          | <u>26</u>    | <u>(16)</u>              | <u>(16)</u> |
| TOTAL                                        | <u>\$255</u>                    | <u>100 %</u> | <u>\$321</u>       | <u>100 %</u> | <u>\$66</u>              | <u>26 %</u> |

As the above data indicate, the additional financing for the industry basically came from increases in debt. Shareholders withdrew a net \$8 million from the industry in addition to the impact that the \$9 million of 1979 to 1982 losses had on equity. Included in the decrease in



EXHIBIT 22

SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY  
ANALYSIS OF INTEREST COVERAGE  
TOTAL SAMPLE FOR FISCAL YEARS 1978 TO 1982  
(\$'000's)

|                                                              | <u>1978</u>     | <u>1979</u>     | <u>1980</u>     | <u>1981</u>     | <u>1982</u>     | <u>Total<br/>5 years</u> |
|--------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------------------|
| Income (Loss) after Taxes                                    | \$19,939        | \$(1,046)       | \$(731)         | \$1,246         | \$(8,281)       | \$ 11,127                |
| Add Back:                                                    |                 |                 |                 |                 |                 |                          |
| Income Taxes                                                 | 11,876          | (3,241)         | (7,699)         | (975)           | (601)           | (640)                    |
| Interest Paid                                                | <u>7,303</u>    | <u>13,057</u>   | <u>21,294</u>   | <u>32,026</u>   | <u>26,470</u>   | <u>100,150</u>           |
| Income Before Taxes and<br>Interest Expenses                 | <u>\$39,118</u> | <u>\$ 8,770</u> | <u>\$12,864</u> | <u>\$32,297</u> | <u>\$17,588</u> | <u>\$110,637</u>         |
| Times Pre-Interest Earnings are<br>of Interest Expense       | 5.4             | .7              | .6              | 1.0             | .7              | 1.1                      |
| Return on Total Assets Before<br>Interest Expenses and Taxes | 15.3%           | 3.0%            | 4.2%            | 10.0%           | 5.5%            | 7.4%                     |
| Interest as a Percent of Sales                               | 1.6%            | 2.7%            | 4.9%            | 5.8%            | 5.4%            | 4.1%                     |

million of 1979 to 1982 losses had on equity. Included in the decrease in equity is a small decrease in private loans. As more detailed data in the report indicate, the main source of the additional debt were bank loans, short and long-term, which together rose from \$45 million to \$132 million in 4 years, an \$87 million increase.

Interest costs also rose in the period from \$7.3 million in 1978 to \$26.5 million in 1982 as debt increased. The increase in interest costs was in part caused by the high interest rates in effect in 1981 and, to a lesser extent, 1982.

It is interesting to note, as Exhibit 22 on the page opposite indicates, that the manageable interest costs of \$7 million in 1978 were less than 2 percent of sales, and that earnings before tax and interest were in excess of 5 times the interest expense, quite respectable coverage. In 1982, interest costs were \$26 million, over 5 percent of sales, and the pre-tax and pre-interest income of \$17.6 million no longer covered the interest incurred.

Exhibit 22 also highlights the dramatic impact on profitability of the increase in the level of debt and interest rates. In 1978, the processors in the sample earned \$39 million before interest and income taxes, a 15.3% return on all assets employed. By 1981 the industry had pre-tax, pre-interest earnings of \$32 million, about 80% of the level in 1978. At this level, the industry barely broke even, even though the sampled companies as a group showed no income taxes payable in 1981 compared to almost \$12 million in income taxes paid in 1978. The dramatic increase in interest costs from \$7 million to \$32 million was a major contributing factor to reduced industry profitability over the study period.

## 6.2 CURRENT FINANCIAL CONDITION

The net result since 1979 of an increasing debt burden, insufficient gross margins and poor earnings has been a trend toward poorer capitalization in the industry: equity to asset ratios have dropped from around 50% in 1978 to 35% in 1982, including private loans in the equity calculation. If private loans are excluded from equity, the 1982 equity to assets ratio falls to 26%.

It is interesting to note that the present asset to equity position (excluding private loans) of the B.C. industry is about the same as it was for fish processors in Atlantic Canada at the end of 1979 (i.e. about 25 percent). Since 1979, the Atlantic processors have suffered further setbacks resulting in even more severe undercapitalization.

The B.C. processing sector has not earned adequate returns since 1978 because it has absorbed major negative events, primarily:

- growing competition from the Alaskan industry with its lower landed cost of fish to processors;

and also including:

- the botulism scare of 1981/82 caused by Alaskan product which adversely affected the market for all canned salmon,
- the major decline of the roe herring market,
- increases in Canadian interest rates, and
- increases in the value of the Canadian dollar relative to currencies in the major European and Japanese markets.

## EXHIBIT 23

**SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY  
SELECTED FINANCIAL DATA  
COMPANIES GROUPED BY EQUITY TO ASSETS RATIO  
(Ranking Based on 1982 Data)**

|                                                                             |      | <u>Under 20%</u> | <u>20 to 55%</u> | <u>Over 55%</u> | <u>Total Sample</u> |
|-----------------------------------------------------------------------------|------|------------------|------------------|-----------------|---------------------|
| <u>Net Sales</u><br>(\$ millions)                                           | 1978 | \$ 61            | \$241            | \$156           | \$458               |
|                                                                             | 1979 | 90               | 249              | 146             | 485                 |
|                                                                             | 1980 | 79               | 245              | 108             | 432                 |
|                                                                             | 1981 | 111              | 322              | 116             | 549                 |
|                                                                             | 1982 | 93               | 289              | 110             | 492                 |
|                                                                             |      |                  |                  |                 |                     |
| <u>Total Assets</u><br>(\$ millions)                                        | 1978 | \$ 29            | \$124            | \$102           | \$255               |
|                                                                             | 1979 | 45               | 148              | 95              | 288                 |
|                                                                             | 1980 | 43               | 185              | 76              | 304                 |
|                                                                             | 1981 | 48               | 196              | 78              | 322                 |
|                                                                             | 1982 | 49               | 193              | 79              | 321                 |
|                                                                             |      |                  |                  |                 |                     |
| <u>Net Income</u><br><u>After Taxes</u><br>(\$ millions)                    | 1978 | \$ 2.4           | \$ 15.1          | \$ 2.5          | \$ 20.0             |
|                                                                             | 1979 | (2.3)            | 5.1              | (3.8)           | (1.0)               |
|                                                                             | 1980 | (2.1)            | .1               | 1.3             | (.7)                |
|                                                                             | 1981 | (3.8)            | 1.6              | 3.4             | 1.2                 |
|                                                                             | 1982 | (4.4)            | (4.6)            | .8              | (8.2)               |
|                                                                             |      |                  |                  |                 |                     |
| <u>Equity including</u><br><u>Private Loans</u><br>(\$ millions)            | 1978 | \$10.9           | \$ 62.9          | \$ 58.3         | \$132.1             |
|                                                                             | 1979 | 10.1             | 66.8             | 45.7            | 122.6               |
|                                                                             | 1980 | 7.8              | 69.1             | 43.8            | 120.6               |
|                                                                             | 1981 | 3.8              | 70.1             | 46.0            | 119.8               |
|                                                                             | 1982 | (1.1)            | 64.7             | 51.3            | 114.9               |
|                                                                             |      |                  |                  |                 |                     |
| <u>Percent Return on</u><br><u>Equity including</u><br><u>Private Loans</u> | 1978 | 22.0%            | 24.0%            | 4.3             | 15.1%               |
|                                                                             | 1979 | (22.8)           | 7.6              | (8.4)           | (.9)                |
|                                                                             | 1980 | (26.9)           | .2               | 2.9             | (.6)                |
|                                                                             | 1981 | (100.0)          | 2.3              | 7.5             | 1.0                 |
|                                                                             | 1982 | N/A              | (7.1)            | 1.5             | (7.2)               |
|                                                                             |      |                  |                  |                 |                     |
| <u>Ratio: Equity</u><br><u>&amp; Private Loans</u><br><u>to Assets</u>      | 1978 | 37.5%            | 50.7%            | 57.2%           | 51.7%               |
|                                                                             | 1979 | 22.4             | 45.1             | 48.1            | 42.6                |
|                                                                             | 1980 | 18.1             | 37.4             | 57.7            | 39.7                |
|                                                                             | 1981 | 7.9              | 35.8             | 59.2            | 37.2                |
|                                                                             | 1982 | (2.2)            | 33.5             | 65.2            | 35.8                |
|                                                                             |      |                  |                  |                 |                     |
| <u>Participants</u>                                                         | 1982 | 8                | 6                | 6               | 20                  |

The B.C. fish processing industry as a whole is now in a much weaker position to react to any future adverse conditions without some major disruptive results. Specifically, the industry cannot absorb any further decreases in profit margins caused by a reduction in the spread between the purchase and selling price of fish products. Such might occur if a royalty was added to the cost of fish to support a vessel restructuring program and landed fish prices paid to fishermen did not decline by the same amount to offset the royalty.

Other potentially disruptive setbacks could include:

- a major increase in interest rates,
- a significant strengthening of the value of the Canadian dollar relative to the currencies of major export markets,
- a major reduction in individual plant throughput caused by reduced catch levels or over-expansion of industry capacity relative to a finite resource base,
- a financial occurrence in the primary sector, such as massive foreclosures, resulting in major reductions in deliveries, or increases in the cost of delivered fish.

A significant factor in the British Columbia situation is that the financial condition of the various participants varies quite widely. Exhibit 23 on the page opposite divides the sampled processors into three groupings based on each respondent's equity at the end of 1982. It shows that eight plants, with about \$49 million in assets, or 15 percent of all assets, had a combined negative equity. Four of these are now in



receivership. One could conclude that up to eight companies, with 15 percent of the processing industry assets represented in this sample are likely to go through some form of financial reorganization or restructuring unless there is a sudden, favourable, unexpected turnaround.

On the other extreme, organizations with about \$80 million, or 25 percent of all assets, have more than half of these assets financed by equity or private loans, and thus are quite strong financially. In the middle is a group in which the equity to assets ratio has deteriorated over the five year period and return on equity has been unsatisfactory since 1980. This group, with 60 percent of sample assets, is in a weakened but not intolerable financial condition and could recover its profitability if the industry is stabilized. However, some of the companies in this group might not survive a further industry downturn or continued poor profitability.

### 6.3 REQUIREMENTS FOR STRENGTHENING THE INDUSTRY

If the processing sector is to return to a state where it has reasonable stability, equity should be increased to at least 40 percent of assets. The B.C. fish processing industry is a resource-based industry which faces cyclical periods of better and poorer market demand and operating results. In Canada, most resource-based industries which are subject to cyclical fluctuations have in excess of 40 percent of their assets covered by equity, the position the B.C. processors were at in 1978, when private loans are included. At this level of equity, usually a company and an industry can withstand negative events on their own, and



expect to earn high returns during favourable periods of the business cycle to balance the low periods in a cycle. The table below illustrates that equity to assets for the manufacturing sector as a whole has averaged over 40% in the 1970's.

ALL MANUFACTURING INDUSTRIES AVERAGE  
EQUITY TO ASSETS RATIO

|      |        |         |        |
|------|--------|---------|--------|
| 1970 | 49.0 % | 1976    | 44.6 % |
| 1971 | 49.2   | 1977    | 44.8   |
| 1972 | 48.4   | 1978    | 44.7   |
| 1973 | 47.4   | 1979    | 44.3   |
| 1974 | 44.4   | 1980    | 44.2   |
| 1975 | 44.7   | Average | 46.0 % |

Source: Statistics Canada 61-207

For the B.C. industry to return to an equity to assets balance of 40%, an infusion of about \$20 million is required within the group of eight weaker members of the sample which had an aggregate of \$1.1 million in deficits at the end of 1982. Because not all the remaining companies have the same ratios, some of the stronger twelve units in the sample also require some capital infusion. We expect that they likely will be able to attract this capital if the industry turns around. We suspect that the weaker eight will have limited success at doing so.

In general, equity will only be attracted if a reasonable return on investment is foreseen. The recent results of the industry as a whole, and the weaker eight companies in particular, are not generally favourable enough to readily attract new capital. It is already apparent that several of the weaker companies will not survive without major change since four are in receivership.

During the 1970's, the after-tax earnings of the entire Canadian Manufacturing sector averaged about 12 percent of equity, while slightly higher returns, of around 15% on average, were typical of the more cyclical or risk-prone industries. Given that a 15% return is a reasonable rate-of-return benchmark for a resource-based industry such as fish processing, and taking 1982 operating results as a base, we would suggest that the after-tax income of B.C. fish processors should average about \$20 million. This assumes that the industry has the \$135 to \$145 million in equity required to support its assets (i.e. \$115 million in equity at the end of 1982 plus about \$20 to \$30 million in additional capital to bring the owners' investment to about 40 percent of assets).

Using 1982 as a base, an income improvement of some \$35 million before tax would be required to reach the targeted \$20 million after-tax income, as is summarized below.

| (\$ millions)      | 1982<br>Results | Satisfactory<br>Year Model |
|--------------------|-----------------|----------------------------|
| Net Sales          | \$ <u>492</u>   | \$ <u>525</u>              |
| Gross Profit       | \$ 60           | \$ 97                      |
| S.G.&A             | <u>37</u>       | <u>39</u>                  |
| Operating profit   | 23              | 58                         |
| Less:              |                 |                            |
| Investment Expense | 27              | 23 (1)                     |
| Depreciation       | 10              | 10                         |
| Other income       | (5)             | (5)                        |
| Income Taxes       | <u>(1)</u>      | <u>10</u>                  |
| Net income (loss)  | \$ <u>(8)</u>   | \$ <u>20</u>               |

(1) Adjusted for new equity reducing debt by \$20 to \$30 million

As the above indicates, the processing sector needs to earn an additional \$35 million before tax, or approximately 7 percent of sales, to be a viable industry. There are several ways this could occur, including an average seven percent selling price increase if none of this increase were passed along to the primary sector. We are not aware of any indications that such a price increase is about to occur in either domestic or export markets.

The processors require, furthermore, about 18 or 19 percent gross margin to earn a satisfactory rate of return, given current Canadian interest rates, and the present industry overhead structure. The processors have been earning profit margins in the 12 percent range in the last few years. To achieve a better gross margin, assuming a reasonable level of efficiency of operation, the processors require a wider spread between the cost of acquisition of raw material and its ultimate selling price to customers. This conclusion does not preclude the possibility that improvements in processor efficiency may be required and should be carried out.

#### 6.4 CONCLUSIONS

From our analysis we conclude that there is strong evidence that the fish supplied by the B.C. primary fishery is too high in cost for the processing sector to earn an adequate return on investment, given current world market price constraints and existing marketing and operating methods within the processing sector. It is our understanding that the primary sector has major structural problems, primarily the problem of

extensive investment in capital assets, which result in high B.C. fish costs when compared to competitors such as Alaska. These problems have a significant impact on the processing sector and need to be resolved if the entire B.C. fishing industry is to return to a position of viability.

If steps are taken in the primary sector, such that the participants who remain in the primary sector are able to earn an adequate return while delivering fish to B.C. processors at prices more competitive with those earned by Alaskan fishermen, then the processing sector should be in a better position to return to a position of viability during the normal course of events, without unusual outside intervention.

We also conclude from our analysis that the B.C. fish processors are currently in need of added capital themselves. As a result, the B.C. processors do not appear to be a likely source of financial support for any possible primary sector restructuring program that might lead to a lower cost of raw fish.

APPENDIX ONE

INCOME STATEMENT AND BALANCE

SHEET DATA: CONSOLIDATED

FOR ALL RESPONDENTS





DATE: NOV. 8, 1983

DEPARTMENT OF FISHERIES AND OCEANS

SCHEDULE C

SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY

BASED ON: ALL PLANTS CONSOLIDATION:

INCOME STATEMENT FOR YEARS 1978-1982 (\$000'S)

|                               | YEAR ENDED                         |        |        |        |        |
|-------------------------------|------------------------------------|--------|--------|--------|--------|
|                               | 1978                               | 1979   | 1980   | 1981   | 1982   |
|                               | (IN THOUSANDS OF CANADIAN DOLLARS) |        |        |        |        |
| TOTAL POUNDS SOLD             | 72180                              | 80951  | 92238  | 99175  | 47909  |
| TOTAL NET SALES               | 458238                             | 483309 | 431808 | 548982 | 491913 |
| COST OF SALES                 | 393320                             | 450821 | 392631 | 483157 | 431936 |
| GROSS PROFIT                  | 64918                              | 34488  | 39177  | 65825  | 59977  |
| SELLING, GENERAL, ADMIN. EXP. | 26016                              | 28382  | 26453  | 31467  | 37189  |
| INTEREST EXPENSES             |                                    |        |        |        |        |
| - LONG TERM DEBT              | 2221                               | 3446   | 5818   | 9366   | 8907   |
| - SHORT TERM DEBT             | 5032                               | 9591   | 15476  | 22660  | 17563  |
| DEPRECIATION                  | 6531                               | 9042   | 9319   | 9061   | 9938   |
| INCOME TAXES                  | 11876                              | 3241   | 7699   | 975    | 601    |
| NON-RECURRING ITEMS           | 6747                               | 9706   | 9459   | 7000   | 4758   |
| NET INCOME (LOSS) AFTER TAX   | 19939                              | 1046   | 731    | 1246   | 8281   |
| NUMBER OF PARTICIPANTS        | 17                                 | 19     | 20     | 20     | 20     |

ARE ANY SIGNIFICANT ACCOUNTING ASSUMPTIONS BEING USED IN THE INCOME STATEMENT (YES/NO)

NA NO YES  
1 16 10

TOTAL NUMBER OF PARTICIPANTS FOR THIS CONSOLIDATION IS 27

DATE: NOV. 8, 1983

DEPARTMENT OF FISHERIES AND OCEANS

SCHEDULE C o/a

SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY

BASED ON: ALL PLANTS CONSOLIDATION:

INCOME STATEMENT FOR YEARS 1978-1982  
(AS A PERCENTAGE OF TOTAL NET SALES)

|                             | YEAR ENDED |      |      |      |      |
|-----------------------------|------------|------|------|------|------|
|                             | 1978       | 1979 | 1980 | 1981 | 1982 |
| TOTAL NET SALES             | 100        | 100  | 100  | 100  | 100  |
| COST OF SALES               | 86         | 93   | 91   | 88   | 88   |
| GROSS PROFIT                | 14         | 7    | 9    | 12   | 12   |
| SELLING-GENERAL-ADMIN. EXP. | 6          | 5    | 6    | 6    | 6    |
| INTEREST EXPENSES           |            |      |      |      |      |
| - LONG TERM DEBT            | 0          | 1    | 1    | 2    | 2    |
| -SHORT TERM DEBT            | 1          | 2    | 4    | 4    | 4    |
| DEPRECIATION                | 1          | 2    | 2    | 2    | 2    |
| INCOME TAXES                | 3          | -1   | -2   | 0    | 0    |
| NON-RECURRING ITEMS         | -1         | -2   | -2   | -1   | -1   |
| NET INCOME(LOSS) AFTER TAX  | 4          | 0    | 0    | 0    | -2   |

ARE ANY SIGNIFICANT ACCOUNTING ASSUMPTIONS BEING USED IN THE INCOME STATEMENT (YES/NO)

NA NO YES  
1 16 10

NUMBER OF PARTICIPANTS

17 19 20 20 20

TOTAL NUMBER OF PARTICIPANTS FOR THIS CONSOLIDATION IS 27

DATE: NOV. 8, 1983

DEPARTMENT OF FISHERIES AND OCEANS  
 SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY

SCHEDULE D

BASED ON: ALL PLANTS CONSOLIDATION:

|                                                               | BALANCE SHEET FOR YEARS 1978-1982 ('000'S) |               |               |               |
|---------------------------------------------------------------|--------------------------------------------|---------------|---------------|---------------|
|                                                               | 1978                                       | 1979          | 1980          | 1981          |
| INVENTORY                                                     | 128035                                     | 129981        | 131316        | 138845        |
| ACCOUNTS RECEIVABLE                                           | 38244                                      | 36455         | 45981         | 56577         |
| FISHERMEN'S A/R                                               | 8936                                       | 13895         | 20974         | 19541         |
| OTHER CURRENT ASSETS                                          | 9290                                       | 26221         | 6383          | 4620          |
| NET FIXED ASSETS-LAND                                         | 44671                                      | 45559         | 57362         | 60218         |
| NET FIXED ASSETS-WATER                                        | 15834                                      | 23673         | 29728         | 29120         |
| OTHER ASSETS (EXCLUDE<br>NON-FISHING ASSETS)                  | 8447                                       | 12103         | 12127         | 13146         |
| <b>TOTAL ASSETS</b>                                           | <b>255457</b>                              | <b>287887</b> | <b>303871</b> | <b>322267</b> |
| BANK LOANS-CURRENT                                            | 29096                                      | 60974         | 66913         | 73819         |
| SHORT TERM CREDIT UNION<br>OR FINANCE COMPANY LOANS           | 6486                                       | 12289         | 15431         | 15916         |
| SHORT TERM LOANS FROM<br>SIGNIFICANT CUSTOMERS                | 741                                        | 1301          | 1221          | 4994          |
| OTHER CURRENT LIABILITIES                                     | 58544                                      | 57431         | 46481         | 56528         |
| BANK LOANS-LONG TERM                                          | 16201                                      | 21823         | 46587         | 46370         |
| LONG TERM CREDIT UNION OR<br>FINANCE COMPANY LOANS            | 445                                        | 688           | 887           | 809           |
| PRIVATE LOANS                                                 | 31727                                      | 26873         | 26834         | 27211         |
| PUBLIC DEBT ISSUES                                            | 878                                        | 878           | 870           | 870           |
| LONG TERM LOANS FROM<br>SIGNIFICANT CUSTOMERS                 | 220                                        | 180           | 50            | 901           |
| OTHER LONG TERM LIABILITIES                                   | 10765                                      | 9765          | 4785          | 2216          |
| SHAREHOLDER EQUITY (DEFICIENCY)                               | 100334                                     | 95684         | 93812         | 92633         |
| <b>TOTAL LIABILITIES AND EQUITY</b>                           | <b>255457</b>                              | <b>287886</b> | <b>303871</b> | <b>322267</b> |
| <b>NUMBER OF PARTICIPANTS</b>                                 | <b>17</b>                                  | <b>19</b>     | <b>19</b>     | <b>20</b>     |
| <b>TOTAL NUMBER OF PARTICIPANTS FOR THIS CONSOLIDATION IS</b> | <b>27</b>                                  |               |               |               |

NUMBER OF PARTICIPANTS

TOTAL NUMBER OF PARTICIPANTS FOR THIS CONSOLIDATION IS 27

DATE NOV. 9, 1983

DEPARTMENT OF FISHERIES AND OCEANS

SCHEDULE D o/o

SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY

BASED ON: ALL PLANTS CONSOLIDATION:

| BALANCE SHEET FOR YEARS 1978-1982                   |                                                                     |      |      |      |      |     |
|-----------------------------------------------------|---------------------------------------------------------------------|------|------|------|------|-----|
|                                                     | AT FISCAL YEAR END OR DECEMBER 31 (AS A PERCENTAGE OF TOTAL ASSETS) |      |      |      |      |     |
|                                                     | 1978                                                                | 1979 | 1980 | 1981 | 1982 |     |
| INVENTORY                                           | 50                                                                  | 45   | 43   | 43   | 47   | 47  |
| ACCOUNTS RECEIVABLE                                 | 15                                                                  | 13   | 15   | 16   | 13   | 13  |
| FISHERMEN'S A/R                                     | 3                                                                   | 5    | 7    | 6    | 5    | 5   |
| OTHER CURRENT ASSETS                                | 4                                                                   | 9    | 2    | 1    | 2    | 2   |
| NET FIXED ASSETS-LAND                               | 18                                                                  | 16   | 19   | 19   | 20   | 20  |
| NET FIXED ASSETS-WATER                              | 4                                                                   | 8    | 10   | 9    | 7    | 7   |
| OTHER ASSETS (EXCLUDE<br>NON-FISHING ASSETS)        | 3                                                                   | 4    | 4    | 4    | 5    | 5   |
| TOTAL ASSETS                                        | 100                                                                 | 100  | 100  | 100  | 100  | 100 |
| BANK LOANS-CURRENT                                  | 11                                                                  | 21   | 22   | 23   | 26   | 26  |
| SHORT TERM CREDIT UNION<br>OR FINANCE COMPANY LOANS | 3                                                                   | 4    | 5    | 5    | 3    | 3   |
| SHORT TERM LOANS FROM<br>SIGNIFICANT CUSTOMERS      | 0                                                                   | 0    | 0    | 2    | 1    | 1   |
| OTHER CURRENT LIABILITIES                           | 23                                                                  | 20   | 15   | 16   | 17   | 17  |
| BANK LOANS-LONG TERM                                | 6                                                                   | 8    | 13   | 14   | 15   | 15  |
| LONG TERM CREDIT UNION OR<br>FINANCE COMPANY LOANS  | 0                                                                   | 0    | 0    | 0    | 0    | 0   |
| PRIVATE LOANS                                       | 12                                                                  | 9    | 9    | 8    | 10   | 10  |
| PUBLIC BERT ISSUES                                  | 0                                                                   | 0    | 0    | 0    | 0    | 0   |
| LONG TERM LOANS FROM<br>SIGNIFICANT CUSTOMERS       | 0                                                                   | 0    | 0    | 0    | 0    | 0   |
| OTHER LONG TERM LIABILITIES                         | 4                                                                   | 3    | 2    | 1    | 1    | 1   |
| SHAREHOLDER EQUITY(DEFICIENCY)                      | 39                                                                  | 33   | 31   | 29   | 26   | 26  |
| TOTAL LIABILITIES AND EQUITY                        | 100                                                                 | 100  | 100  | 100  | 100  | 100 |
| NUMBER OF PARTICIPANTS                              | 17                                                                  | 19   | 19   | 20   | 20   | 20  |

TOTAL NUMBER OF PARTICIPANTS FOR THIS CONSOLIDATION IS 27

**APPENDIX TWO**

**DEFINITION OF RATIOS**





**Gross Margin**

This ratio is derived by deducting the cost of sales from the sales figure, and expressing the differences as a percentage of sales. It answers the question "Is the markup on cost to selling price sufficient to show a profit?"

**Profit (or Net Income) After Tax as a Percentage of Sales**

Profit after tax as a percentage of sales is an important measure of profitability. It is useful both for internal trend analysis and external comparisons; it effectively sums up in a single figure management's ability to run a business. It should be related to the following two ratios.

**Profit After Tax to Total Assets**

Profit after tax expressed as a percentage of total assets determines the return on the assets employed in the business. It measures the productivity of the assets.

**Profit After Tax to Equity**

Here, profits after tax are expressed as a percentage of shareholders equity [stock plus retained earnings (less deficits)]. This measures the return the shareholders in the business have on their investment; that is, it measures the earning power of their equity. The ratio should be sufficiently high to provide for both dividends and funds for future growth. In certain cases, long-term private loans due to shareholders or affiliates are added into total equity, as in the ratios calculated in this report.

This ratio can serve as a valuable index in evaluating how well a company is doing relative to other companies.

**Profit Before Tax to Sales, Total Assets, or Equity**

These ratios are measures of profitability similar to the three preceding ones, but use profits before tax. As a result these ratios should be higher than the after tax ones.

**Profit Before Tax and Interest to Assets**

This ratio measures the productivity of assets without regard to how they were financed or how much interest must be paid to creditors. It is an excellent measure of the efficiency of management.

### **Sales to Inventory Ratio**

This ratio expresses net sales as a percentage of inventory, showing the balance that is being maintained between inventory and sales volume. There is no standard yardstick for this ratio since inventory turnover rates vary from industry to industry. However, few companies want to be caught in a top-heavy inventory position.

### **Current Ratio**

This ratio measures short-run debt-paying ability. Current assets are defined as being those assets which will convert into cash in the next accounting cycle, while current liabilities are defined as those liabilities which will have to be paid during the next accounting cycle. The ratio shows the relationship between those assets considered to be more highly liquid, and compares them to equally liquid liabilities. The main items in current assets are accounts receivable and inventories, while short-term borrowings and accounts payable are the more important current liabilities.

There is no absolute standard for this ratio but if it is 1 to 1 or better it indicates a good liquid position.

### **Fixed Assets to Equity**

Fixed Assets are divided by shareholders equity for this ratio. Fixed assets represent depreciated book values of buildings, leasehold improvements, machinery, furniture, fixtures, tools, and other physical equipment, plus land. Ordinarily, this relationship should not exceed 100% for a manufacturer, and 75% for a wholesaler or retailer.

This ratio is sometimes used as a test of the adequacy of equity capital. If the investment in plant equipment is high relative to stockholder's equity, this indicates that a firm has borrowed heavily to invest in non-liquid assets, which may lead to difficulties should earnings not prove satisfactory.

### **Fixed Assets to Sales**

Fixed assets (net of depreciation) are expressed as a percentage of sales in this ratio. The real value of this ratio comes as a predicator of capacity. As sales volume grows, fixed asset investments have to be increased as well (in most industries). If they are not, this ratio quickly increases, which hints that a firm may have to increase its future capital expenditures.

### **Total Assets to Equity, Sales**

These ratios are similar to the fixed assets to equity (or sales) ratio. However, as this ratio measures total assets, it assesses how much

equity is involved in financing total assets (or the extent of investment in assets covered by sales).

The converse ratio, equity to assets (sales), is often used to indicate the same relationship.

#### **Long-Term Debt to Equity**

Long-term debt is expressed as a percentage of equity to measure how heavily levered a firm is; that is, how much long-term borrowed capital it has relative to capital invested by shareholders. It provides lenders with an indication of the security available for their funds. For industrial firms, long-term debt should not exceed half of total capital.

#### **Times Interest Earned**

This ratio is calculated as income before interest and income taxes divided by annual interest expense. It measures whether enough income is being earned before taxes to cover interest charges. The interest coverage ratio tests the ability of a company to pay interest charges on its debt.

For industrial firms, current year's interest should be covered at least three times by average annual earnings.

#### **Interest Expense as a Percentage of Sales**

For this ratio, total interest cost (on long-term and short-term debt) is expressed as a percentage of sales. This shows how much of the selling price is used to pay interest charges.



APPENDIX THREE

LETTERS SENT TO PROCESSORS







Minister of  
Fisheries and Oceans

Ministre des  
Pêches et des Océans

Ottawa, Canada  
K1A 0E6

My Department, with the assistance of the chartered accounting firm of Clarkson Gordon, is conducting a survey and analysis of the financial performance of the British Columbia fish processing industry for the years 1978 through 1982. This analysis will enable both myself and my Department to gain a clear understanding of the present financial position of the industry. With this letter, I am requesting your support and co-operation in this survey.

This survey is a vital component of a larger study process being undertaken by my Department in connection with government discussion on the various issues and recommendations arising from the work of the Commission On Pacific Fisheries Policy. I plan to present to my Cabinet colleagues later this year recommendations that will address critical issues such as ways to overcome the excess capacity that exists in the British Columbia fishing fleet. One option would be a buy-back program, and the data from the survey will help in analyzing how such a program might be financed.

I am requesting that you participate in this study by providing Clarkson Gordon with data on your Company's financial and related operating results, as outlined in the attached letter. The information collected by Clarkson Gordon will be kept **STRICTLY CONFIDENTIAL**. No individual organization, company or

.../2

Canada



- 2 -

government department will have access to individual company information unless specifically authorized by the company in question. Only data based on averages will be released to the government by Clarkson Gordon.

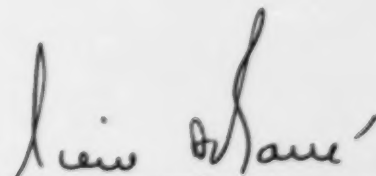
Very shortly, Clarkson Gordon will contact you by telephone to arrange an interview date, at which time the required financial data for your company will be requested. All interviews will be conducted within the next two weeks in order to ensure that the results are available in time.

An immediate advantage of this survey to your Company is the feedback that will be provided to you upon study completion. Your own plant data will be returned in a format that will enable you to compare the results of your financial performance against the overall performance of the industry as indicated by industry-wide and regional averages.

Again, I ask your co-operation and full participation in the survey. The Fisheries Council of Canada has expressed its support for this initiative and believes it will lead to development of a very valuable database for the processing industry as well as for the government. Many companies in British Columbia have already indicated their willingness to participate.

If you have any questions regarding the survey of a departmental nature, please contact Mr. Richard Roberts, Director, Economic Policy Branch at (613) 995-2102, or on the survey, Ms. Ludmila Jagiellicz, at Clarkson Gordon in Vancouver at 683-7133.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "Pierre De Bané". The signature is fluid and cursive, with a large initial "P" and a stylized "D".

Pierre De Bané, C.P., M.P.  
Matapédia-Matane

Enclosure



A MEMBER OF ARTHUR YOUNG INTERNATIONAL

*Clarkson Gordon*

Chartered Accountants  
P.O. Box 10101, Pacific Centre  
700 West Georgia Street  
Vancouver, Canada V7Y 1C7  
Telephone: (604) 683-7133

August 29, 1983

Dear Sirs:

As the attached letter indicates, our Firm has been engaged to undertake the analysis of the financial performance of the British Columbia fish processing industry. We will be in touch with you shortly to set up an appointment date for gathering the required information.

Because of the very tight time deadline which we are working under, and also to minimize your time involvement, we thought it would be helpful if we outlined for you the main information sources which will be required to complete the survey form so that you could have the opportunity to assemble the various sources before we arrive. All the data we will be using will be for the years 1978 through 1982. The main sources which will be used are:

- o Final financial statements, both the income statement and balance sheets,
- o Annual records of sales by major classifications in dollars and units,
- o Year-end summaries of Inventories by major classification, and
- o Annual cost of production records.

If you would like any further explanation or guidance on assembling data, we will be pleased to provide it when we telephone you to set up the meeting. We look forward to meeting you and working with you on this project.

Yours very truly,

L. Jagiellicz/fs  
Vancouver



**BRITISH COLUMBIA  
SEAFOOD EXPORTERS'  
ASSOCIATION**

#400 — 100 West Pender Street  
Vancouver, B.C., Canada V6B 1R8  
Telephone (604) 684-6454

August 30, 1983

Dear :

The Department of Fisheries and Oceans, with the assistance of the chartered accounting firm of Clarkson Gordon, is conducting a survey and analysis of the financial performance of the British Columbia fish processing industry for the years 1978 through 1982. This analysis will enable the Department to gain a clear understanding of the financial position of the industry. With this letter, we request your support and co-operation.

This survey is a vital component of a larger study process being undertaken by the Department prior to government discussion of the various issues and recommendations arising from the work of the Commission on Pacific Fisheries Policy. The Department of Fisheries and Oceans plans to present to Cabinet in the late fall, recommendations that will address such critical issues as ways to overcome the excess capacity that exists in the British Columbia fishing fleet. One option would be a buy-back program, and the data from the survey will help in analyzing how such a program might be financed. Because of the importance of this matter to the overall industry your input into this study is essential.

We are requesting that you participate in this study by providing Clarkson Gordon with data on your Company's financial and related operating results, as outlined in the attached letter. The information collected by Clarkson Gordon will be kept **STRICTLY CONFIDENTIAL**. No individual, organization, company or government department will have access to individual company information unless specifically authorized by the company in question. Only data based on averages will be released to Government study sponsors.

- 2 -

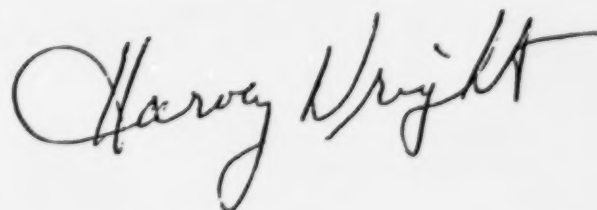
Very shortly, Clarkson Gordon will contact you by telephone to arrange an interview date, at which time the required financial data for your Company will be collected. All interviews must be conducted within the next two weeks in order to ensure that the results are available for government consideration in the fall.

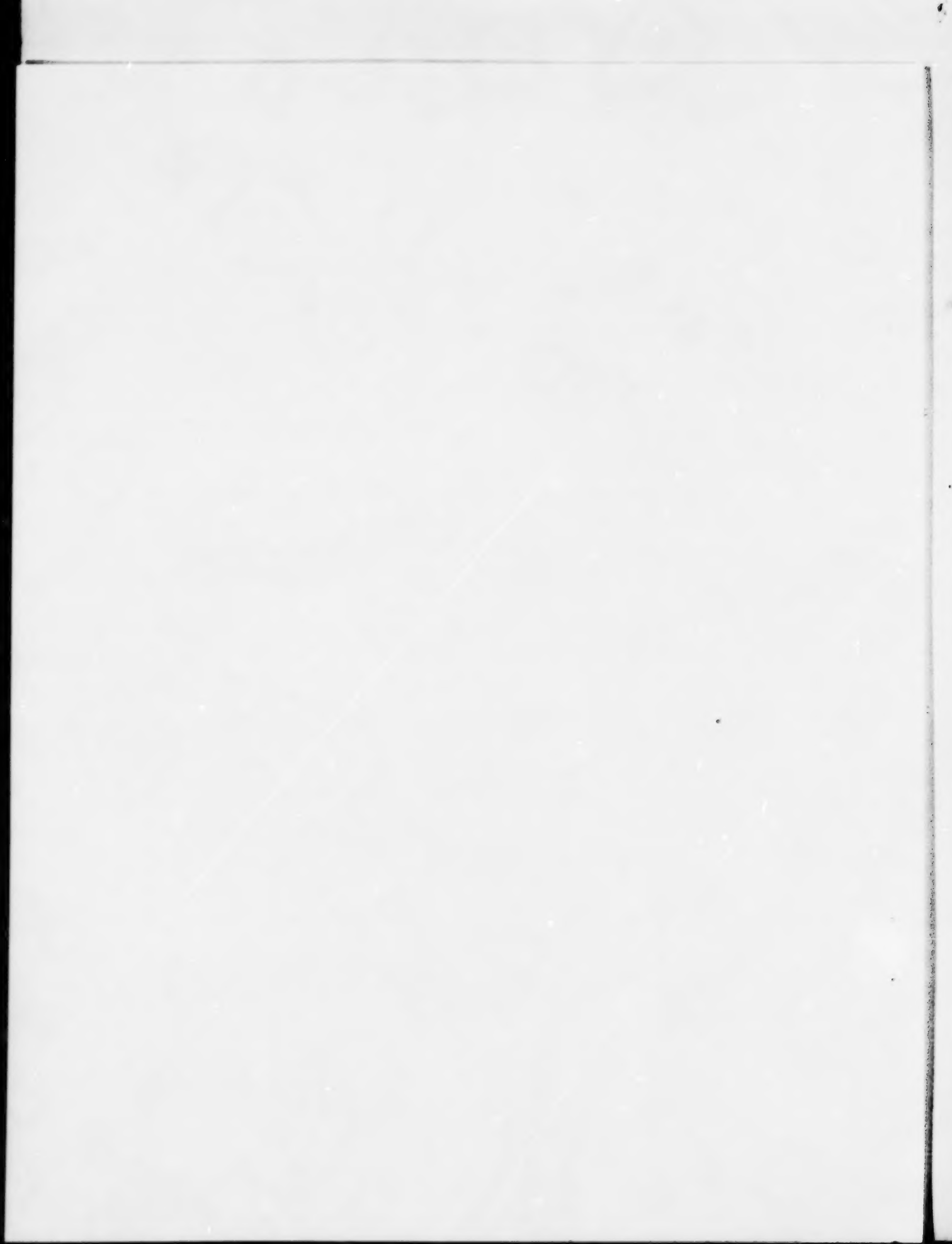
An immediate advantage of this survey to your Company is the feedback that will be provided to you upon study completion. Your own plant data will be returned in a format that will enable you to compare the results of your financial performance against the overall performance of the industry as indicated by industry-wide and regional averages.

Again, we ask your co-operation and full participation in the survey. The Fisheries Council of Canada has expressed its support for this initiative and believes it will lead to development of a very valuable database for the processing industry as well as Government. Many companies in British Columbia have already indicated their willingness to participate.

If you have any questions regarding the survey, please contact Ms. Ludmila Jagiellicz, at Clarkson Gordon in Vancouver at 683-7133.

Yours very truly,

A handwritten signature in cursive script, reading "Harvey Wright". The signature is written in dark ink and is positioned to the right of the typed name "Harvey Wright".





**APPENDIX FOUR**

**LIST OF SURVEY RESPONDENTS**



**APPENDIX FOUR**  
**LIST OF SURVEY RESPONDENTS**

**COMPANIES WHO WERE SENT A PRE-INTERVIEW LETTER FOR THE FINANCIAL SURVEY  
OF BRITISH COLUMBIA PROCESSING COMPANIES**

- A. Members of the Fisheries Association of British Columbia (\*) and the British Columbia Seafood Exporters' Association Who Participated in the Survey.**

| <b>COMPANY</b>                                        | <b>CONTACT<br/>(Vancouver/Skeena)</b> |
|-------------------------------------------------------|---------------------------------------|
| British Columbia Packers Limited*                     | Mr. Karl E. Jensen                    |
| The Canadian Fishing Company Limited*                 | Mr. P.M. Morgan                       |
| The Cassiar Packing Company Limited*                  | Mr. Dick Barnsley                     |
| Lion's Gate Fisheries Ltd.                            | Mr. David Wei                         |
| J.S. McMillan Fisheries Ltd.*                         | Mr. B.J. McMillan                     |
| Millerd Fisheries Ltd.                                | Mr. Brian Johnstone                   |
| North Sea Products Ltd.                               | Mr. Ken Takeda                        |
| Ocean Fisheries Ltd.*                                 | Mr. Gordon W. Safarik                 |
| Port Simpson Native Co-op                             | Ms. Louise Bannerman                  |
| Prince Rupert Fishermen's Co-Operative<br>Association | Mr. M. Florian                        |
| Quality Fish Co. Ltd.                                 | Mr. Peter Browne                      |
| Royal Fisheries Ltd.                                  | Mr. Tobbi Gjelsvik                    |
| Seafood Products                                      | Mr. Peter L. Briscoe                  |
| Trans-Pacific Fish*                                   |                                       |
| A Division of Trans-Pacific Trading                   | Mr. B.L. Tyrer                        |

- B. Members of the British Columbia Seafood Exporters' Association Who Did Not Participate in the Survey.**

| <b>COMPANY</b>        | <b>CONTACT</b> |
|-----------------------|----------------|
| Bella Coola Fisheries |                |
| Reliance Fish Company |                |

- C. Independent Processors who Participated in the Survey.**

| <b>COMPANY</b>                      | <b>CONTACT</b>  |
|-------------------------------------|-----------------|
| Aero Trading Co. Ltd.               | Mr. Yamaguchi   |
| Central Native Fishermen's Co-op    | Mr. Alvin Dixon |
| Fjord Pacific Marine                | Mr. T. McMillan |
| Satellite Fishing Co. Ltd.          | Mr. D. Norbury  |
| Tonquin Packing                     | Mr. A. Andrews  |
| Vancouver Shellfish & Fish Co. Ltd. | Mr. N. Safarik  |
| Yamazaki Enterprises Ltd.           | Mr. D. Yamazaki |

D. Independent Processors Who Did Not Participate in the Survey.

COMPANY

Billingsgate Fish Ltd.  
Hub City Fishing Ltd.  
Harry L. Ostergaard & Son Ltd.  
Silver Wing  
Ucluelet Fishing Co. Ltd.  
Walcan Seafood Ltd.

E. Companies Sent a Pre-interview Letter But Found Not To Be Processors.

COMPANY

Adrian Dowell  
Albion Fisheries Ltd.  
Booth Fisheries Ltd.  
P & G Seafoods (1975) Ltd.  
James H. Thompson Fish  
Kingfisher Enterprises Ltd.  
Seascope Fish Ltd.

**APPENDIX FIVE**

**SURVEY QUESTIONNAIRE**





SURVEY OF THE BRITISH COLUMBIA FISH PROCESSING INDUSTRY

CLARKSON GORDON - SEPTEMBER 1983

GENERAL INFORMATION

Today's Date: Day: \_\_\_\_\_ Month: \_\_\_\_\_ Year: \_\_\_\_\_

Company Name: \_\_\_\_\_

Head Office Address: \_\_\_\_\_

Plant Name: \_\_\_\_\_

Plant Address: \_\_\_\_\_

Other Plants Owned by Company: \_\_\_\_\_

| Plant Location: | <u>Major Geographical Area</u> | <u>DFO</u>              |
|-----------------|--------------------------------|-------------------------|
|                 |                                | <u>Statistical Area</u> |
|                 | A - North British Columbia     | 1 - 6                   |
|                 | B - Central British Columbia   | 7 - 10, 30              |
|                 | C - Strait of Georgia          | 11 - 19                 |
|                 | D - Western Vancouver Island   | 20 - 27                 |
|                 | E - Lower Mainland             | 28 - 29                 |
|                 | Specific DFO Statistical Area  | [ ][ ]                  |

Contact Name: \_\_\_\_\_

Position: \_\_\_\_\_

Contact Phone No.: \_\_\_\_\_

Fiscal Year End: Day: \_\_\_\_\_ Month: \_\_\_\_\_

Estimate percent throughput of product by month:

|            | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Total | Total<br>pounds<br>produced |
|------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-------|-----------------------------|
| Salmon     |     |     |     |     |     |     |     |     |     |     |     |     | 100%  |                             |
| Herring    |     |     |     |     |     |     |     |     |     |     |     |     | 100%  |                             |
| Halibut    |     |     |     |     |     |     |     |     |     |     |     |     | 100%  |                             |
| Groundfish |     |     |     |     |     |     |     |     |     |     |     |     | 100%  |                             |
| Other      |     |     |     |     |     |     |     |     |     |     |     |     | 100%  |                             |

Please specify Others: \_\_\_\_\_

Estimate Payroll \$ Per Month (\$ in thousands)

|    | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Total |
|----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-------|
| \$ |     |     |     |     |     |     |     |     |     |     |     |     | \$    |

Total Number of Paid Labour Hours in a Year (at the Plant) \_\_\_\_\_ hrs.

What is the source of raw material by method of catching?

| <u>Most recent year</u> | <u>Salmon</u> | <u>Herring</u> | <u>Groundfish</u> |          |
|-------------------------|---------------|----------------|-------------------|----------|
| seine                   | ____%         | ____%          | ____%             | trawler  |
| gillnet                 | ____          | ____           | ____              | longline |
| troll                   | ____          | ____           | ____              | troll    |
| other                   | ____          | ____           | ____              | other    |
|                         | <u>100%</u>   | <u>100%</u>    | <u>100%</u>       |          |

Sales by Country - Percent Distribution Based on \$'s

|                      | <u>1978</u> | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> |
|----------------------|-------------|-------------|-------------|-------------|-------------|
|                      | <u>%</u>    | <u>%</u>    | <u>%</u>    | <u>%</u>    | <u>%</u>    |
| Canada               | —           | —           | —           | —           | —           |
| United Kingdom       | —           | —           | —           | —           | —           |
| United States        | —           | —           | —           | —           | —           |
| Australia            | —           | —           | —           | —           | —           |
| Belgium              | —           | —           | —           | —           | —           |
| France               | —           | —           | —           | —           | —           |
| Italy                | —           | —           | —           | —           | —           |
| Netherlands          | —           | —           | —           | —           | —           |
| New Zealand          | —           | —           | —           | —           | —           |
| Japan                | —           | —           | —           | —           | —           |
| Other Export Markets | —           | —           | —           | —           | —           |
| Totals               | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

Plant Capacity

As measured over a one day shift based on throughput of only one specie.

| <u>Specie</u>         | <u>Daily Pounds</u> | <u>Hours in Day Based Upon</u> | <u>Constraining Factor</u> | <u>Peak Production Over Season as % of Capacity</u> |
|-----------------------|---------------------|--------------------------------|----------------------------|-----------------------------------------------------|
| Salmon Canned         | —                   | —                              | —                          | —                                                   |
| Salmon Frozen & Other | —                   | —                              | —                          | —                                                   |
| Salmon Total          | —                   | —                              | —                          | —                                                   |
| Herring               | —                   | —                              | —                          | —                                                   |
| Halibut               | —                   | —                              | —                          | —                                                   |
| Groundfish            | —                   | —                              | —                          | —                                                   |
| Other                 | —                   | —                              | —                          | —                                                   |

Additional comments to clarify above data (e.g. is optimal capacity below physical capacity?):

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NOTES TO QUESTIONNAIRE

- A - Questionnaires should be completed by Clarkson Gordon, Chartered Accountants, P.O. Box 10101, Pacific Centre, Vancouver, British Columbia, V7Y 1C7.
- B - All replies will be treated as confidential, and only Clarkson Gordon will have access to financial information by plant or company.
- C - Questionnaires should be completed using information from audited financial statements for years ended 1978 - 1982 (If audited information is not available for 1982, please provide unaudited information.)
- D - A questionnaire should be completed for each plant (do not include feeder stations as separate plants). Where audited information for each plant is not available, please allocate Income Statement information on the basis of production pounds. As it may not be possible to allocate Balance Sheet information to individual plants, please provide Company totals on only one questionnaire.
- E - Definitions (refer to schedules C, D, E, F)
  - 1. TOTAL POUNDS SOLD - show the weight in thousands of pounds in total for all categories of fish.
  - 2. NET SALES - sales revenue should be net of all returns, discounts and other deductions.

- 2 -

3. COST OF SALES - include all costs of production relating to sales.  
Account for opening and closing inventory on schedule C-1 as follows:

$$\begin{array}{r} \text{COST OF PRODUCTION} \\ + \text{OPENING INVENTORY} \\ - \text{CLOSING INVENTORY} \\ \hline = \text{COST OF SALES} \end{array}$$

4. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES - Include all other costs except interest, depreciation and income taxes which are shown separately.
5. INTEREST EXPENSE - differentiate between interest on long term and short term debt.
6. DEPRECIATION - show depreciation on all fixed assets.
7. INCOME TAXES - include both current and deferred taxes.
8. NON-RECURRING ITEMS - show any non-recurring items here. Please note on the bottom of the page what these items are in respect of.
9. INVENTORY - show year end inventory of all products.
10. ACCOUNTS RECEIVABLE - show trade receivables only.
11. FISHERMEN'S ACCOUNTS RECEIVABLE - show receivables from other fishermen only.
12. NET FIXED ASSETS - show total of all fixed assets, net of depreciation and amortization. Describe basis of valuation if other than costs.
13. OTHER ASSETS - show any other assets not included in the above asset categories.

- 3 -

14. BANK LOANS, CREDIT UNION or FINANCE COMPANY LOANS, and LOANS FROM SIGNIFICANT CUSTOMERS SHOULD BE DIVIDED BETWEEN CURRENT AND LONG-TERM PORTIONS.
15. OTHER CURRENT LIABILITIES - include all current liabilities except for short term bank loans shown separately.
16. PRIVATE LOANS - should exclude all loans by shareholders included in shareholders' equity.
17. PUBLIC DEBT ISSUES - includes bonds issued and outstanding.
18. OTHER LONG-TERM LIABILITIES - include all other non-current liabilities, including reserves and deferred income.
19. SHAREHOLDERS' EQUITY OR DEFICIENCY - show all shareholders' equity (shares, retained earnings or deficit) as well as loans by shareholders.
20. ANALYSIS OF SALES BY CATEGORY

SCHEDULE E, E<sub>1</sub>      - please estimate net sales by species and type of sale as indicated. Please fill in the name of any species other than salmon, pelagics and groundfish in the order of importance, and estimate their sales values in the space provided.

Note that "Total Net Sales All Species" should agree to net sales and total pounds sold on Schedule C (Income Statement).

SCHEDULE F              - please estimate closing inventory by species and product as indicated. Again fill in the name of other species as required. Data for 1982 should include closing inventory cases for salmon and pounds for all other species. "Total Inventory All Species" should agree to Inventory on Schedule D (Balance Sheet).



INCOME STATEMENT

(Round to Nearest Thousands)

|                                                 | <u>1978</u> | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> |
|-------------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Total Pounds Sold<br>Finished product           | _____ lbs.  | _____ lbs.  | _____ lbs.  | _____ lbs.  | _____ lbs.  |
| Net Sales                                       | \$ _____    | \$ _____    | \$ _____    | \$ _____    | \$ _____    |
| Cost of Sales (From<br>Schedule C-2 Attached)   | _____       | _____       | _____       | _____       | _____       |
| Gross Profit                                    | _____       | _____       | _____       | _____       | _____       |
| Selling, General and<br>Administrative Expenses | _____       | _____       | _____       | _____       | _____       |
| Interest Expenses<br>- Long Term Debt           | _____       | _____       | _____       | _____       | _____       |
| - Short Term Debt                               | _____       | _____       | _____       | _____       | _____       |
| Depreciation                                    | _____       | _____       | _____       | _____       | _____       |
| Income Taxes                                    | _____       | _____       | _____       | _____       | _____       |
| Non-Recurring Items<br>(Explain below)          | _____       | _____       | _____       | _____       | _____       |
| Net Income (Loss)<br>After Tax                  | \$ _____    | \$ _____    | \$ _____    | \$ _____    | \$ _____    |

SALES AND GROSS PROFIT BY PRODUCT PACK

(Round to Nearest Thousands)

1978      1979      1980      1981      1982

Salmon Canned

|              |                            |       |       |       |       |       |
|--------------|----------------------------|-------|-------|-------|-------|-------|
| Net Sales    | \$'s                       | _____ | _____ | _____ | _____ | _____ |
|              | Cases or Lbs.<br>(Specify) | _____ | _____ | _____ | _____ | _____ |
| Gross Profit | \$'s                       | _____ | _____ | _____ | _____ | _____ |

Salmon Frozen and Other

|              |      |       |       |       |       |       |
|--------------|------|-------|-------|-------|-------|-------|
| Net Sales    | \$'s | _____ | _____ | _____ | _____ | _____ |
|              | Lbs. | _____ | _____ | _____ | _____ | _____ |
| Gross Profit | \$'s | _____ | _____ | _____ | _____ | _____ |

All Herring

|              |      |       |       |       |       |       |
|--------------|------|-------|-------|-------|-------|-------|
| Net Sales    | \$'s | _____ | _____ | _____ | _____ | _____ |
|              | Lbs. | _____ | _____ | _____ | _____ | _____ |
| Gross Profit | \$'s | _____ | _____ | _____ | _____ | _____ |

All Groundfish

|              |      |       |       |       |       |       |
|--------------|------|-------|-------|-------|-------|-------|
| Net Sales    | \$'s | _____ | _____ | _____ | _____ | _____ |
|              | Lbs. | _____ | _____ | _____ | _____ | _____ |
| Gross Profit | \$'s | _____ | _____ | _____ | _____ | _____ |

All Other

|              |      |       |       |       |       |       |
|--------------|------|-------|-------|-------|-------|-------|
| Net Sales    | \$'s | _____ | _____ | _____ | _____ | _____ |
|              | Lbs. | _____ | _____ | _____ | _____ | _____ |
| Gross Profit | \$'s | _____ | _____ | _____ | _____ | _____ |

INCOME STATEMENT

GROSS PROFIT AND NET INCOME ANALYSIS

State Significant Accounting Assumptions in Income Statement (eg. Transfer Price Assumptions, if any).

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Explain reasons for changes in gross profit and net income/loss from year to year. Give specific consideration to causes of change, i.e. Why did volume shift or costs increase or decrease.

1978/79

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1979/80

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1980/81

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1981/82

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SCHEDULE OF COST OF SALES  
(Round to Nearest Thousands)

|                                                                                                                                                                                                 | <u>1978</u> | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Raw material - Fish<br>(all costs related to<br>obtaining fish at<br>plant side)                                                                                                                | \$ _____    | \$ _____    | \$ _____    | \$ _____    | \$ _____    |
| Purchased finished product<br>(total cost of fish<br>product purchased in<br>finished form for resale<br>to customers)                                                                          | _____       | _____       | _____       | _____       | _____       |
| Other Material Costs<br>(e.g. raw material for<br>non-fish product, prod-<br>uction and packaging<br>supplies)                                                                                  | _____       | _____       | _____       | _____       | _____       |
| Labour Costs<br>(all labour costs of the<br>processing operations in-<br>cluding maintenance,<br>fringe benefits and<br>plant management, but<br>excluding administrative<br>and selling costs) | _____       | _____       | _____       | _____       | _____       |
| Energy Costs<br>(costs such as oil,<br>electricity)                                                                                                                                             | _____       | _____       | _____       | _____       | _____       |
| Other Production Costs<br>(all other costs<br>associated with<br>production)                                                                                                                    | _____       | _____       | _____       | _____       | _____       |
| TOTAL COST OF PRODUCTION                                                                                                                                                                        | _____       | _____       | _____       | _____       | _____       |
| Add Opening Inventory                                                                                                                                                                           | _____       | _____       | _____       | _____       | _____       |
| Less Closing Inventory                                                                                                                                                                          | _____       | _____       | _____       | _____       | _____       |
| TOTAL COST OF SALES<br>(to Schedule C)                                                                                                                                                          | \$ _____    | \$ _____    | \$ _____    | \$ _____    | \$ _____    |
| or                                                                                                                                                                                              |             |             |             |             |             |
| TRANSFER OF INVENTORY<br>TO HEAD OFFICE                                                                                                                                                         | \$ _____    | \$ _____    | \$ _____    | \$ _____    | \$ _____    |

BALANCE SHEET

(Round to Nearest Thousands)

At Fiscal Year End or December 31st, if available

|                                                     | <u>1978</u> | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> |
|-----------------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Inventory                                           | \$ _____    | \$ _____    | \$ _____    | \$ _____    | \$ _____    |
| Accounts Receivable                                 | _____       | _____       | _____       | _____       | _____       |
| Fishermen's Accounts<br>Receivable                  | _____       | _____       | _____       | _____       | _____       |
| Other Current Assets                                | _____       | _____       | _____       | _____       | _____       |
| Net Fixed Assets - Land                             | _____       | _____       | _____       | _____       | _____       |
| Net Fixed Assets - Water                            | _____       | _____       | _____       | _____       | _____       |
| Other Assets (Exclude<br>Non-Fishing assets)        | _____       | _____       | _____       | _____       | _____       |
| TOTAL ASSETS                                        | \$ _____    | \$ _____    | \$ _____    | \$ _____    | \$ _____    |
| Bank Loans - current                                | \$ _____    | \$ _____    | \$ _____    | \$ _____    | \$ _____    |
| Short Term Credit Union<br>or Finance Company Loans | _____       | _____       | _____       | _____       | _____       |
| Short Term Loans from<br>Significant Customers      | _____       | _____       | _____       | _____       | _____       |
| Other Current Liabilities                           | _____       | _____       | _____       | _____       | _____       |
| Bank Loans - Long Term                              | _____       | _____       | _____       | _____       | _____       |
| Long Term Credit Union<br>or Finance Company Loans  | _____       | _____       | _____       | _____       | _____       |
| Private Loans                                       | _____       | _____       | _____       | _____       | _____       |
| Public Debt Issues                                  | _____       | _____       | _____       | _____       | _____       |
| Long Term Loans from<br>Significant Customers       | _____       | _____       | _____       | _____       | _____       |
| Other Long Term Liabilities                         | _____       | _____       | _____       | _____       | _____       |
| Shareholders' Equity<br>(Deficiency)                | _____       | _____       | _____       | _____       | _____       |
| TOTAL LIABILITIES<br>AND EQUITY                     | \$ _____    | \$ _____    | \$ _____    | \$ _____    | \$ _____    |

SOURCES OF FINANCING

Indicate Principal Source of Financing for the following categories:

Bank Loans

Current

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Long Term

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Loans from Credit  
Union or Finance Company

Current

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Long Term

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**SCHEDULE E**

**ANALYSIS OF SALES BY PRODUCT PACK**  
(Estimates in Thousands)

| FROM PLANT'S OWN<br>PRODUCTION NET SALES | 1978<br>Cases (4816) | 1979<br>Cases (4816) | 1980<br>Cases (4816) | 1981<br>Cases (4816) | 1982<br>Cases (4816) |
|------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>SALMON</b>                            |                      |                      |                      |                      |                      |
| Canned                                   |                      |                      |                      |                      |                      |
| - Sockeye                                |                      |                      |                      |                      |                      |
| - Chum                                   |                      |                      |                      |                      |                      |
| - Pink                                   |                      |                      |                      |                      |                      |
| - Coho                                   |                      |                      |                      |                      |                      |
| - Chinook                                |                      |                      |                      |                      |                      |
| Total Canned                             | \$ lbs.              | \$ lbs.              | \$ lbs.              | \$ lbs.              | \$ lbs.              |
| Total Frozen                             |                      |                      |                      |                      |                      |
| Total Fresh                              |                      |                      |                      |                      |                      |
| Total Other                              |                      |                      |                      |                      |                      |
| <b>TOTAL SALMON</b>                      |                      |                      |                      |                      |                      |
| <b>PELAGICS</b>                          |                      |                      |                      |                      |                      |
| Herring Roe                              |                      |                      |                      |                      |                      |
| Herring Other                            |                      |                      |                      |                      |                      |
| Other Pelagics                           |                      |                      |                      |                      |                      |
| <b>TOTAL PELAGICS</b>                    |                      |                      |                      |                      |                      |
| <b>GROUND FISH</b>                       |                      |                      |                      |                      |                      |
| Halibut - Frozen                         |                      |                      |                      |                      |                      |
| - Fresh                                  |                      |                      |                      |                      |                      |
| - Other                                  |                      |                      |                      |                      |                      |
| Other Groundfish                         |                      |                      |                      |                      |                      |
| - Frozen                                 |                      |                      |                      |                      |                      |
| - Fresh                                  |                      |                      |                      |                      |                      |
| - Cured                                  |                      |                      |                      |                      |                      |
| - Other                                  |                      |                      |                      |                      |                      |
| <b>TOTAL GROUND FISH</b>                 |                      |                      |                      |                      |                      |
| <b>OTHER (List Below)</b>                |                      |                      |                      |                      |                      |
| (a)                                      |                      |                      |                      |                      |                      |
| (b)                                      |                      |                      |                      |                      |                      |
| (c)                                      |                      |                      |                      |                      |                      |
| (d)                                      |                      |                      |                      |                      |                      |
| (e)                                      |                      |                      |                      |                      |                      |
| <b>TOTAL OTHER</b>                       |                      |                      |                      |                      |                      |
| <b>TOTAL PLANT PRODUCTION</b>            |                      |                      |                      |                      |                      |
| <b>GOODS PURCHASED FOR RESALE</b>        |                      |                      |                      |                      |                      |
| Tuna                                     |                      |                      |                      |                      |                      |
|                                          |                      |                      |                      |                      |                      |
|                                          |                      |                      |                      |                      |                      |
| <b>TOTAL RESALE</b>                      |                      |                      |                      |                      |                      |
| <b>TOTAL NET SALES ALL SPECIES</b>       |                      |                      |                      |                      |                      |

ANALYSIS OF INVENTORY BY PRODUCT PACK  
(Estimates in Thousands)

SCHEDULE F

For Fiscal Year End on December 31st, if available

|                             | 1978 | 1979 | 1980 | 1981 | 1982   |
|-----------------------------|------|------|------|------|--------|
|                             | \$   | \$   | \$   | \$   | Pounds |
|                             |      |      |      |      | Cases  |
| CLOSING INVENTORY           |      |      |      |      |        |
| <u>SALMON</u>               |      |      |      |      |        |
| Canned Salmon               |      |      |      |      |        |
| Other Salmon                |      |      |      |      |        |
| Total Salmon                |      |      |      |      |        |
| <u>PELAGICS (Herring)</u>   |      |      |      |      |        |
| Total Pelagics              |      |      |      |      |        |
| <u>GROUNDFISH</u>           |      |      |      |      |        |
| Total Groundfish            |      |      |      |      |        |
| <u>OTHER</u>                |      |      |      |      |        |
| Total Other                 |      |      |      |      |        |
| TOTAL INVENTORY ALL SPECIES |      |      |      |      |        |

### COMMENTS

**SCHEDULE G**

Please include any commentary by way of clarification or further information relating to previous schedules. If possible include the relative profit (loss) associated with:

- salmon
- pelagics
- groundfish
- other species

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FORECASTED RESULTS: 1983

SCHEDULE H

Total Sales \$ \_\_\_\_\_

Lbs. \_\_\_\_\_

Profit/Loss  
After Tax \_\_\_\_\_

Comments on Cause of 1983 Results

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Capital Expenditures (in Thousands of dollars)

|      | <u>Normal Replacement</u> | <u>Expansion or<br/>Major Change</u> |
|------|---------------------------|--------------------------------------|
| 1983 | \$ _____                  | \$ _____                             |
| 1984 | _____                     | _____                                |
| 1985 | _____                     | _____                                |
| 1986 | _____                     | _____                                |

Comments on Major Components of Capital Plans

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